Accountancy

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Professional Notes

The International Accounts

THE BALANCE ON BRITAIN'S INTERNATIONAL CURRENT ACCOUNT WAS IN OUR FAVOUR last year: we were creditors for £123 million. But the outcome was rather less favourable than in 1952 when the credit balance was £134 million. The balances were made up as follows:

	£ million 1952	£ million 1953
Debits:		
Visible imports	2,943	2,872
Invisible imports	816	768
	3,759	3,640
Credits:		
Visible exports	2,826	2,675
Invisible exports	1,067	1,088
	3,893	3,763
Excess of credits over debits	134	123

Last year we received a net sum of £102 million in defence aid from the United States and in the previous year a net sum of £121 million. Bringing aid into account, we had a credit balance of £225 million last year compared with one of £255 million in 1952.

An outstanding feature of the sectional current accounts with different regions is that the recovery in our trade with the dollar area continued to the point where last year we were almost in balance with the area: a debit of only £4 million contrasted with one of £172 million in 1952.

The investment and financing account shows that we added £240 million to the gold and dollar reserves but increased our sterling liabilities to oversea creditors by almost as much, namely, by £222 million, so that only the difference between these two amounts, £18 million, represented a net improvement in our sterling capital account. The remainder of the credit balance on current account, including aid, was £207 million (£225 million *minus* £18 million) and this sum was invested abroad, representing an improvement in our non-sterling capital account.

The official aim is for a favourable balance on current account of at least some £300 million to £350 million, the minimum necessary to enable us to satisfy claims for investment abroad, in the form mainly of some running down of sterling balances by some holders, industrial investment overseas and Commonwealth development. We fell far short of achieving this aim last year, when the terms of trade were moving quite emphatically in our favour. It seems that only a marked spurt in exports would suffice to achieve it this year, for a reduction in the volume of imports is unlikely (except at the cost of a slackening in industrial production) and the fall in import prices seems almost at an end.

The accounts are presented in the White Paper *United Kingdom Balance of Payments, 1946 to 1953 (No. 2)* (Command 9119, price 2s. 3d. net, Her Majesty's Stationery Office).

New Methods of Business Finance

Some provocative ideas on the financing of industry were expounded by Mr. A. R. English at the North-Western

Management Conference organised at Southport last month by the British Institute of Management, the Federation of British Industries, the National Union of Manufacturers and the Merseyside Branch of the Institute of Industrial Administration. Mr. English is Chief Loan Administration Officer of the *Industrial and Commercial Finance Corporation, Ltd.*, but was speaking in his personal capacity.

Many businesses, Mr. English maintained, were short of funds for investing in productive capacity and the scarcity was likely to be a continuing feature of our economy. High taxation reduced the volume of retained profits; inflation, while exacting greater drafts upon retained profits to finance working or "circulating" capital, raised the cost of replacing and expanding fixed assets. Anomalous tax treatment on the basis of original costs of expenditure on fixed assets and stock values in effect turned taxes on income into taxes on capital. "It is the taxation by reference to historical cost which is considered to be one of the hindrances to the modernisation of British industry today."

The problem was aggravated by the unwillingness of private savers to put their savings into risky outlets. Safety of capital had become the investment goal of the private sector of the economy for two main reasons: (1) high taxation of the income reward, with no compensation for any capital losses, had diminished the incentive to take risks and (2) savings in assurance policies and in pension funds, either compulsory under an employers' scheme or voluntary, saved tax and under the Married Women's Property Acts there was a substantial relief from estate duty on savings by way of assurance. The result was that savings were passing into the hands of the manager of the investment institution.

The investment manager expected fairly rapid repayments. This requirement tended to restrict industrial expansion, because repayments had to be financed out of taxed profits. To meet this difficulty, Mr. English suggested that investment managers should consider two possibilities. The first was that the larger pension funds, which are exempt from income tax, should take a hand in financing industry by means of advances repayable in full as annuities under deduction of income tax. The second was that an attempt should be made to adapt the method of finance so that it met the requirements of an investment manager who desires steady amortisation of what would otherwise be perpetual investments (because of the non-marketability of shares in a private company). The first suggestion, said Mr. English, would greatly help the borrower; he would be repaying a net sum—that is, after deducting income tax—out of his profits after tax, while no loss would accrue to the pension fund, since the income tax deducted would ultimately be refunded by the Government. One way of carrying through the second suggestion, he continued, would be for the institution to take up in a private company a block of shares carrying the right to a fixed percentage of the profits, after providing for prior charges, for a fixed period, after which the shares would lose all rights, becoming mere cyphers. "Is this the way for the pension funds to share in the prosperity of business, insured to a degree against inflation and be out of their investment in the same generation as it was made? For my part I would not care to answer the question. I would like to think that our friends, the investment managers, would turn their minds to the problem and see if they could put some equity annuities into their investment portfolios."

Mr. English concluded by making a plea for further new ideas in finance. The technique of long-term finance for the small and medium-sized business was still in its infancy and he suspected that financiers were wrong in assuming that what was right for large companies was equally suitable for smaller businesses.

Accountability of Football Pools

In its passage through the Standing Committee of the House of Commons the Pool Betting Bill was amended by the passing of the amendments noted in our Professional Note last month (page 122). Some objection, however, was raised to the amendment requiring the promoters to publish only the percentage of total stakes absorbed otherwise than in winnings and duty, and Mr. F. Mulley, M.P., who introduced the Bill, agreed to consider whether the cash figure as well as the percentage should be stated. The amendment requiring a pool promoter to send to the auditor and to the local authority (for public inspection) an annual statement showing aggregate stakes, aggregate stakes less winnings and duty, and promoter's commission, contained the provisions (not mentioned in our note last month) that the promoter's commission could optionally be stated as a percentage of total stakes, instead of a cash figure, and if less than 3 per cent. of the stakes, could optionally be stated as being less than that percentage. There was considerable opposition in the Committee to these provisions, but they were finally agreed to.

The National Accounts

The income and expenditure of the United Kingdom in 1953 may be shown as in the following account, taken, with some adaptations, from the recent White Paper *Preliminary Estimates of National Income and Expenditure, 1948 to 1953* (Command 9118, Price 6d. net, Her Majesty's Stationery Office):

INCOME
(*£ million*)

	1952	1953
Income of employees and the Forces	8,903	9,442
Professional earnings ..	241	249
Profits of sole traders and partnerships and farmers' incomes	1,312	1,357
Profits of companies * ..	2,260	2,430
Miscellaneous †	932	1,161
Plus Stock depreciation ..	—	80
Gross national income ..	13,648	14,719

* Gross of depreciation allowances.
† Profits of public bodies, rents, net income from abroad and residual error.

EXPENDITURE
(*£ million*)

			1952	1953
Personal consumption ..			10,403	11,029
Current expenditure of public authorities			2,895	3,098
Capital formation :	1951	1952		
Fixed assets	2,060	2,312		
Stocks	—	90		
	2,060	2,402		
Plus stock depreciation		80	2,060	2,482
Plus exports and income received from abroad not offset by imports and income paid abroad			157	121
Gross national expenditure (at market prices) ..			15,515	16,730
Less indirect taxes (net of subsidies)			1,867	2,011
Gross national expenditure or product			13,648	14,719

This income and expenditure account does not make any allowance for price changes. The comparison between 1953 and 1952 of the national product and of the main items of expenditure generating it, corrected for price changes (that is, put in real terms), can be seen from a table given in the *Economic Survey for 1954* (Command 9108, Price 1s. 6d. net):

CHANGES IN REAL SUPPLY AND DEMAND BETWEEN 1952 AND 1953 (at 1952 prices)

	£ million
Supply	
Gross domestic product	+500
Imports	+285
	+785
Demand	
Public authorities (including defence)	+110
Exports	− 60
Gross fixed investment	+215
Investment in stocks and work in progress	+170
Personal consumption	+350
	+785

It is apparent that the fall in import prices accounted for a fair part of the increase in the available goods and services last year. Nearly a half of this increase went into personal consumption. Gross fixed investment expanded by £210 million but this was much less than the necessary instalment towards the modernisation and improvement of our capital equipment—hence the need for the investment allowance announced by the Chancellor of the Exchequer in his Budget. Whatever may be said of particular concerns and of the economy as a whole in a period of years ahead—see the Professional Note above on Mr. English's paper at the recent North-Western Management Conference—that industry on the whole was not suffering acutely from lack of finance last year is shown by the fact that companies had £523 million available from their gross profits and other receipts (after paying tax, interest and dividends and for fixed assets and stocks). The investment allowance is, therefore, calculated to stimulate industrialists to invest in fixed assets more of the funds now in their possession and currently coming into their possession, rather than to provide them with the funds for the investment.

The Monopolies Commission

In a paper which he read to the Incorporated Accountants' Students' Society of London and District on April 12, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., a member of the Council of the Society of Incorporated Accountants, described the working of the Monopolies and Restrictive Practices Commission, of which he is a senior member.

Sir Richard explained the conditions which have to be satisfied before the Board of Trade may remit a formal reference to the Commission for an inquiry into an industry or process. At least one third of all the goods of a particular type supplied in the United Kingdom must be supplied either by or to any concern or by or to any two or more concerns whose affairs are so conducted that they in any way prevent or restrict competition in the production or supply of the goods; somewhat similar provisions apply to the export of goods and to trade processes. The Board may, however, make no such reference to the Commission where the conditions are expressly authorised by Parliament—a proviso which excludes the nationalised industries from being investigated by the Commission—and there are also excluded from the preview of the Commission matters concerning employment or wages or working conditions. The Commission may be required by the reference to it to limit its inquiry to the facts or it may also be required to report whether the public interest is being harmed. If the Commission find that there is any such mischief, they may (but need not) recommend remedial action. And if remedies are suggested, Parliament is free to disregard them.

If a report is not limited to the facts, the Board of Trade (to which all reports are addressed) must lay the report before each House of Parliament; if it is so limited, the Board may decide whether or not it should be laid. There are appropriate provisions to avoid publication of any part of a report which it would be contrary to the public interest to publish or which contains information about secret manufacturing processes and the like, disclosure of which would damage private interests; parts of the report on matches were not published.

After the Commission has reported on examples of practices of a particular class in specific industries, the Board of Trade may require it to report on the general effect upon the public interest of any of these practices. The Commission is now making a general inquiry into collective boycott and exclusive dealing.

After a report is laid before Parliament the appropriate Government Department consults the industry, and seeks agreement on implementing those recommendations which the Department accepts.

In most inquiries the Commission examines costs, profits, prices and terms of sale and hears evidence and considers representations on them, as well as upon the terms of agreements and arrangements. Some whose affairs have been investigated have said that they are at somewhat of a loss as there is no charge against them and their representations are therefore bound to be too general or abstract. In reply to this charge, Sir Richard said that before the report is drafted these are indicated to the parties concerned, not only the matters which appear to the Commission to be restrictive of competition but also the grounds on which they might be held to operate against the public interest; the parties are invited to make written statements justifying their actions and are given the opportunity of being represented by Counsel at a hearing of the Commission.

Since its appointment early in 1949, continued Sir Richard, the Commission has furnished full reports, on both facts and the effects on the public interest, on dental goods, cast iron rainwater goods, electric lamps, insulated cables, insulin, matches (including their export), match-making machinery, imported timber and calico printing. After reporting on the facts in the supply and export of semi-manufactured copper goods, it received a reference calling for a further report on the effect on the public interest. The Commission is also inquiring into heavy electrical machinery (including its export), tyres (including their export), two practices regarding building contracts in London, hard fibre cordage, linoleum, sand and gravel obtained in a specified area of Scotland, and industrial and medical gases (oxygen, dissolved acetylene and profane).

The practices which have been mentioned by the Commission in its reports (the first five practices are the

most important) are exclusive dealing, collective boycott and stop lists, loyalty rebates, aggregate rebates, association rebates, minimum prices and margins, allocation of orders, sharing markets, quota schemes with penalties, fighting companies, price discrimination, elimination of competition by acquisition of competitors, control of supply of materials and restriction of entry.

Sir Richard concluded by affirming that criticism of the Commission for the paucity of reports so far issued was mainly a reflection upon the form of the Commission as established by the Monopolies and Restrictive Practices Act of 1948; the purpose of the amending Act of last year, which increased the number of Commissioners and empowered them to work in panels, was to remedy this defect.

The paper is, we understand, to be reproduced in full in the July issue of *Accounting Research.*

Stamp-Martin Chair Seminars

We have pleasure in announcing that Professor Mary Murphy, PH.D., C.P.A., who will be on a visit from the United States, will address two seminars at Incorporated Accountants' Hall. The first will be on Thursday, May 13, on *Research in Accounting History: A Pioneer Field* and the second on Thursday, June 24, on *Dilemmas and Challenges in Modern Practice.* The seminars are open ones to which all who are interested are invited, but those intending to be present are asked to notify in advance the Secretary of the Incorporated Accountants' Research Committee at Incorporated Accountants' Hall. Both will start at 6 p.m.

Professor Mary Murphy has written widely on accounting in American and other journals. She is the author of *The British War Economy, 1939-43,* and editor of *Selected Readings in Accounting and Auditing.* She has been touring Australia and New Zealand and lecturing under the Fulbright Foundation.

There will also be held at Incorporated Accountants' Hall, by request, four vacation seminars for students on the last four Thursdays in July—July 8, 15, 22 and 29. The first two seminars will be on *Auditing Theory,* and the other two on *Accounting Theory.* The seminars will be addressed by prominent accountants, whose names will be announced shortly. All the seminars will start at 6 p.m. Students are invited to attend and to notify the Secretary of the Research Committee in advance of their intention to do so.

Scottish Chartered Accountants' Presidential Address

In his presidential address at the annual general meeting of the Institute of Chartered Accountants of Scotland, held at Edinburgh on March 31, Mr. John L. Somerville, F.R.S.E., said that representatives of 44 other accountancy bodies from the British Isles and from 22 oversea countries would be present at the centenary celebrations of the Institute to be held from June 16 to 18 (see ACCOUNTANCY for March, page 84). There were already excess applications for most of the functions, but places were still available for the opening and closing plenary sessions.

Mr. Somerville hoped that the work of the special committee appointed by the Council might result in a superannuation scheme for members of the Institute and their dependants and possibly also for the office staffs of practising members. Much would depend, however, on whether the Government acted on the recommendations of the second Tucker Committee and as yet it was too early even to speculate on the outcome of the labours of the special committee.

Ordinary Resolution to Increase Capital of an Exempt Private Company

Section 63 of the Companies Act, 1948, requires a company which has passed a resolution authorising an increase in its capital to send to the Registrar of Companies a printed copy of the resolution. If the company has adopted Table A, the increase may be effected by ordinary resolution (paragraph 44). Before 1929 an extraordinary resolution was necessary.

A reader points out the following anomaly. An exempt private company is exempted by the proviso to Section 143(1) from the requirement to send to the Registrar a printed copy of a special or extraordinary resolution, provided that it forwards a copy in a form approved by him—it is understood that the Registrar accepts a typewritten top copy, on condition that if there is not already an exempt private company certificate on the company's file, a certificate signed by a director and by the secretary is furnished in the form of the "additional certificate," appropriate to exempt private companies, which is printed at the end of the form of Annual Return. But there is no corresponding exemption from the requirement of a printed copy of an ordinary resolution authorising an increase of capital.

It may be assumed that when the next Bill is prepared for amending the Companies Act this is a point which will be corrected.

Meanwhile, readers who are concerned with exempt private companies should note that the copy of any ordinary resolution increasing the share capital must be printed, or produced by one of the processes which are accepted by the Registrar as equivalent to printing. These are lithography of any description; compotype; gammeter multigraph; monotype; multigraph; roneotype; and rotaprint.

Capital Grants to Industry in Northern Ireland

The Capital Grants to Industry Bill provides that during the next three years the Northern Ireland Government may make grants towards capital expenditure by industry up to the limit of £20 million.

If, as is almost certain, the Bill becomes law, any industrial undertaking which is prepared to invest in plant, machinery or new buildings in Northern Ireland will receive a grant of one-quarter of the capital cost, whether the expenditure is for improving efficiency by re-equipment or for expanding output. Expenditure on mechanically propelled vehicles used for manufacturing processes will be eligible for grant but vehicles used for external transport will not qualify. Grants will be made to concerns already operating in Northern Ireland as well as to those setting up there for the first time; any scale of capital investment will rate for assistance.

The grants will be available for three years commencing January 1, 1954. The capital expenditure will be covered by certificates from the Inland Revenue

Department and these, attached to claim forms certified by the auditors of concerns applying, will be submitted to the Ministry of Finance. The Ministry will pass the grant on this evidence without further investigation of documents of sale. In practice, the grant of one-quarter would be the amount allowed by the income tax authorities as initial allowances on capital expenditure.

No grants will be made towards expenditure which is grant-aided under other enactments, such as the Re-equipment of Industry Acts or the Industries Development Acts.

The scheme is an additional inducement for companies to create industrial capacity in Northern Ireland and to expand employment there. Unemployment in Northern Ireland, at some 9·0 per cent. of the insured population, is much in excess of the average for Great Britain (1·8 per cent.).

Accounting for Redevelopment Areas

The proper accounting for redevelopment areas is by no means simple. A special form of capital account (the "redevelopment capital account") has to be kept, merely for the purpose of calculating the grant payable. It is not a part of the accounting system, nor is it an account in the ledger; it is a memorandum account drawn up in prescribed form for ascertaining the quarterly balances upon which loan charges are deemed to be paid. It shows, on the debit side, expenditure on land acquisitions, values of land "appropriated in" and costs of site clearance. On the credit side appear the values of parcels of land "appropriated out" to various purposes or sold. Loan charges on the average quarterly balance for the year qualify for grant at the prescribed rates. It was at one time thought that the capital account in the ledger would correspond with the memorandum account, but experience shows that this is not always practicable. The debit side will normally correspond, but the credit side cannot do so if there are standing properties from which revenue is derived. For grant purposes, revenue producing properties must be appropriated out of the redevelopment capital account at the outset, but so far as the financial accounts proper are concerned, the properties remain in the town planning accounts: in these circumstances, therefore, the balance on the "redevelopment capital account" will not correspond with the ledger balance.

Another difficulty is the principle to be adopted in recording the appropriations in and out of the town planning account. The position is not the same as a simple transfer of, say, housing land for education purposes, or vice versa. For instance, land intended for housing purposes must be appropriated out to that purpose as soon as the initial work on roads or sewers commences. As this usually takes place immediately after the site is cleared, it will be found that if a blitzed area was formerly made up of many small housing sites separately owned only a small number of the sites will have been paid for at the date of appropriation. This means that the town planning account will be the creditor of the housing account in respect of land not paid for. As the compensation for acquisition of the various sites has to be agreed between owners, the district valuer, and the local authority, it sometimes takes twelve months or more before all the sites are paid for, and the accounts cannot be finally adjusted until the final costs are met. There are several alternative methods of showing these transactions in the accounts, and these will easily occur to the minds of municipal accountants. But uniform treatment is desirable.

When all the costs of acquisitions have been met, the site clearance expenses paid and the appropriations made, there will be a debit balance on the capital account. This will consist of the site clearance expenditure and the excess of land costs over the value of appropriations. There will not be any tangible assets left, and the obvious course will be write-off the expenditure over a period of years. If, when appropriations are made, an equivalent amount of debt has been transferred, the balance of debt remaining, apart from repayments already made, will be equivalent to the balance on the capital account. It would therefore be appropriate to write-off the expenditure by the amount of debt repaid each year, over the remaining period of the loan sanctions. If there are any revenue producing properties still in the planning accounts, the relevant expenditure should remain in the books until they are demolished or otherwise disposed of.

Perhaps some needed uniformity in this branch of accountancy will result from the deliberations of the Institute of Municipal Treasurers on the standardisation of municipal accounts and some guidance from the Ministry of Town and Country Planning would not be out of place.

Public Administration and Finance

At the conference held by the Institute of Municipal Treasurers and Accountants at Balliol College, Oxford, from March 19 to 21, over 80 delegates were present, including senior finance officers of central and local government, and members of public boards. Sir Malcolm Trustram Eve, BART., G.B.E., M.C., T.D., Q.C. presided.

Sir Edward Bridges, G.C.B., G.C.V.O., M.C., Permanent Secretary of the Treasury, spoke on *Finance: New and Old Views*, pointing out the changes that had occurred in the role of finance in parliamentary procedure over the past twenty years.

Sir Reginald Wilson, B.COM., C.A., a member of the British Transport Commission, addressed the conference on *Finance in Transport*. He stressed the need for a self-balancing budget, without subsidies, and urged that finance should be brought in at all stages of policy formation.

The next principal speaker, Mr. J. G. L. Francis, A.C.A., A.C.W.A., Chief Accountant of the British Broadcasting Corporation, gave an outline of the financial organisation of the B.B.C. He explained that expenditure had to be fitted to a fairly static income from licences. Budgetary control was on a basis of ten-year and four-year forecasts—the emphasis being on estimates rather than on accounts.

Mr. J. Latham, C.B.E., A.C.A., Director-General of Finance of the National Coal Board, addressed the Conference on the subject of *Finance and the Operation of the Coal Industry*. He made clear the important part played by finance in the management of the nationalised coal industry, and added that one of the most difficult problems in a large

monopoly was to find the correct price level. In view of the short supply and constant demand for coal, it might be thought that its price was too low, but price increases would cause repercussions in other industries and on labour relations.

Approaching the subject of the conference from a different angle, Sir James Lythgoe, C.B.E., F.I.M.T.A., formerly City Treasurer of Manchester, suggested that the functions of finance were: firstly, the motivation and direction of effort, and secondly, to secure economy and efficiency in operation. He pointed out that local authorities, unlike public boards, were governmental bodies and could not ignore the policy of the central government. Funds were derived from rates, and it was essential to prevent finance from controlling, instead of guiding, local government activities.

Sir Harold Howitt, C.B.E., D.S.O., M.C., D.L., D.C.L., J.P., F.C.A., a past President of the Institute of Chartered Accountants in England and Wales, gave an address at the final session of the conference on *The Finance Officer*. Finance, he said, was equally important in every field, from profit-making boards to government Departments, with the dual function of formulating the limits for policy decisions and then controlling the resulting actions derived from them. Sir Harold discussed the relationship between the chief finance officer and the management, saying that this depended to a great extent on the permanence of the management, from which it followed that in central and local government the accounting officer must be stronger than in free enterprise. He should have ability, co-operation and tact, and should not claim to be expert beyond his sphere.

New Headquarters of Indian Chartered Accountants

It is pleasing to report that the Institute of Chartered Accountants of India is now in occupation of its own headquarters building in New Delhi, the capital. The opening ceremony was performed by Mr. Nehru, the President of India, on April 2; after this formal opening of the building the first All-India Conference of Chartered Accountants started, lasting until April 5.

The building has been described as "magnificent and in keeping with the status and dignity of the profession." It is air-conditioned, contains ample room for the purposes of the Institute, and will house a large library which it is hoped to provide in the near future. The Indian Government generously gave the land on which the building stands and contributed two lakhs of rupees (£15,000) towards its cost.

The Institute was set up in 1949, under the Chartered Accountants Act of that year. For the first three years its President was Mr. G. P. Kapadia, of Bombay; he was succeeded in 1952-53 by Mr. G. Baru (who is an Incorporated Accountant), of Calcutta; and the present occupant of the office is Mr. S. Vaich, of Kanpur.

Accountancy on the Screen

It is several years since films were produced on banking and on the Stock Exchange, various industries have described in celluloid their operations and purposes, and to the large numbers of cans of film on industrial productivity already in existence numerous others will be added by the British Productivity Council, spending American-aid dollars in this typically American fashion. But until the American Institute of Accountants produced *Accounting — the Language of Business*, no film had been made on accountancy.

We announced in our issue of July, 1953 (page 215), that the American Institute was intending to sponsor the production of a film as part of its drive to overcome the shortage of recruits into the profession. By courtesy of *The Accountant*, which has acquired a print of the resulting film and which gave it a private showing for a number of guests last month, we were able to see and hear Mr. Carl Grayson, playing a Certified Public Accountant, explain to a high school boy and his anxious parent —a grateful client of the C.P.A.—the romance and promise of a career in accountancy.

The film is a two-reeler, running for some twenty minutes. It is largely given up to "flash-backs" of earlier cases in which the C.P.A. was the hero —when he detected the reasons for an over-valued stock, when he saved 7,000 dollars of tax payments for the high school boy's father, and when he proved that Jones was not the trusted purchasing-clerk he was thought to be, but had been paying an outside confederate for non-existent components. Some of the dialogue in these incidents of the C.P.A.'s life story is perhaps rather too slick for the British taste, and the details of the cases might, it seems to us, be somewhat difficult for the adolescent audience to whom the film is mainly addressed. But the part of the C.P.A., especially, is played persuasively. One does indeed obtain a sense of the satisfaction which an accounting career can give — which is to say that the film has achieved the purpose for which it was made.

Accountancy—June Issue

We intend to report in our June issue the proceedings at the annual general meeting of the Society of Incorporated Accountants. The meeting is to be held on May 26, however, which is later than the journal normally goes to press, so that we ask our readers to note that it is possible that the June issue will be a few days late.

Shorter Notes

The Public Trustee

The Lord Chancellor has appointed a committee to consider whether any changes should be made in the functions or methods of the Public Trustee, in the organisation of his office, or in the financial conditions under which he operates. The chairman of the committee is Sir Maurice Holmes, G.B.E., K.C.B. The secretary is Mr. W. Millington Limb, of the Public Trustee Office.

Audit of Friendly Societies

In the Professional Note on page 124 of our April issue, it should have been stated that Section 14 of the Industrial Assurance and Friendly Societies Act of 1948 provides that a society which at the end of 1949 or of any later year had *not less* than 500 members and *not less* than £5,000 in assets must thereafter submit its accounts for audit to an Approved Auditor.

F.B.I. President Re-elected

At the recent annual general meeting of the *Federation of British Industries* Sir Harry Pilkington was re-elected President for a second year of office.

ACCOUNTANCY

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The Annual Subscription to ACCOUNTANCY *is £1 1s., which includes postage to all parts of the world. The price of a single copy is 2s., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.*

A Sober Budget

MR. BUTLER DECIDED THAT HE COULD not make any budgetary adventure this year, even a contained adventure such as he embarked upon a year ago. The arithmetic of his Treasury officials averred that the economy was just in balance. That is to say, the Budget was required neither to be contractionist by way of a surplus above the line, which would add to savings, nor to be expansionist, by way of a deficit above the line, which would absorb an excess of savings. There are critics of the Chancellor who demur at his acceptance of the Treasury thesis, with its apparent fixing of precise values on imprecise concepts, and who would have preferred a " dash for production " by an abatement of taxation—a reduction in the standard rate of income tax or an increase in the earned income allowances or a fall in the rate of profits tax. They contend that no one can truly affirm that if taxation in the sum of, say, £50 million or £100 million were remitted, the Budget would spark off an inflationary impulse. The " arithmetic " could easily, it is said, be out by that margin in a national income of some £15,000 million and a Budget total of some £5,000 million. Exactly: but it could as easily be out in the other direction! Alternatively, argue the critics, the dash for production, spurred on by tax reliefs, would bring such buoyancy to the national revenue that the £50 million or £100 million would be painlessly recovered by the Exchequer and all would be well in the final accounting, an accounting which would be struck on a higher plane of national production and prosperity. Perhaps: but production stimuli are tricky things.

Yet the Chancellor was acutely aware—none more than he—of the need to promote industrial output and thus to expand the national product. How, without adventurousness in his budgeting, without blinding himself to the dangers of deviating from an above-the-line balance, could he propel the economy on to the higher plane of production which he desired no less than his critics desire it? Could he conceivably do this—avoid Exchequer expenditure while nevertheless inducing industry to expand its output? The ingenious " investment allowance " was his answer. It will cost him virtually nothing this year and little in succeeding years, since its benefit (see our article on page 181 of this issue) is spread over a more or less lengthy period in the future. Yet to gain the future benefit industrialists will almost certainly make large additions this year to their expenditure on fixed assets. In so doing they will be taking a direct and a most effective step towards enlarging industrial production. For it is a commonplace that the pace of modernisation and extension of industrial potential in this country has been far too slow, and that a speeding up of it is imperative if the British national production is not to continue to lag.

Nor is that all. If there is slack anywhere in the economy it is only in the capital goods industries. A general expansion of demand, such as would result from tax reliefs over a wide field, would be liable to lead to over-activity in the consumption goods industries as well as to take up any existing slack in the capital goods industries. The investment allowance will stimulate immediate demand only for capital goods, and thus will lead to a very desirable quickening of activity in the industries making them. And to secure that the home market does not absorb all the increase in the output of these industries, the Chancellor introduced a valuable extension of the use of export guarantees by the Export Credit Guarantee Department, whereby the maker of heavy capital goods will not have to borrow to finance orders from abroad for such goods obtainable only on long credit terms, but will be able to leave the Department to deal direct with his banker, without recourse against him. This extension of export credit insurance will, it is to be expected, produce bigger exports of these goods.

The other main item in this Budget, —a sober Budget, to be sure, but not, as it has been called, by some, an unimaginative one—is the relief of estate duty on the family business. This, like the other items, is one which should do much to promote the installation of new machinery and plant (now, with industrial buildings, to be assessed for estate duty at 55 per cent. and thus to expand industrial production. Even though the Chancellor has unfortunately not accepted the logic of a departure from the " assets basis " of valuation of " controlled " private companies, he has given overdue and valuable help to the family business.

The emphasis in the Budget was thus throughout on the enlargement of the national product. The burden of taxation in the British economy can indeed be lightened in two ways—by enlarging the national product and by reducing Government expenditure. It is all to the good that positive and quite far-reaching budgetary action has been taken by the Chancellor in the first of these two ways. It behoves him, however, and it behoves all of us, not to diminish efforts to secure easement of taxation in the second way. The Chancellor enjoined in his Budget speech that State expenditure must be controlled—the nation should now look for determined action in this sense.

No Par Value

The Committee on Shares of No Par Value, which was appointed by the President of the Board of Trade in December 1952, reported last month (Command 9112, Price 1s. 3d. net, Her Majesty's Stationery Office). The chairman of the Committee was Mr. Montagu L. Gedge, Q.C. We give below a summary of the recommendations made in the report of the majority (seven members) of the Committee and a summary of the dissenting conclusions of the minority (one member). These summaries are followed by the first part of an article by Professor W. T. Baxter, B.COM.(EDIN.), C.A., Professor of Accounting in the London School of Economics, University of London, and by Professor L. C. B. Gower, M.B.E., LL.M., Sir Ernest Cassel Professor of Commercial Law in the London School of Economics. The second part of this article, dealing with the accounting changes that would be made necessary by the introduction of shares of no par value, will appear in our next issue and the third and concluding part, which discusses changes in the law, will follow in our issue for July.

Recommendations of the Gedge Committee

Summary of Recommendations in Majority Report

(*1*) *The Companies Act, 1948, should be amended so as to allow the issue of ordinary shares of no par value. This amendment should not extend to shares having a fixed dividend element or a fixed element of repayment of capital.* (*Paragraphs 39, 40.*)

(*2*) *Companies should be allowed by special resolution to convert their ordinary shares having a nominal value into shares of no par value. Where there is more than one class of share, the conversion should be subject to approval by extraordinary resolution of the holders of each such class.* (*Paragraphs 42, 48.*)

(*3*) *Companies should be allowed by special resolution to convert their fully paid shares of no par value into shares having a nominal value.* (*Paragraph 42.*)

(*4*) *The ordinary share capital of a company should be required to be wholly either in the form of shares having a nominal value or in the form of shares of no par value: no company should be allowed to have ordinary shares of both these descriptions at the same time.* (*Paragraph 41.*)

(*5*) *It should be permissible for shares of no par value to be partly paid: in that case the fact should be clearly stated on the share certificate, in the balance sheet, annual return and other appropriate documents.* (*Paragraph 43.*)

(*6*) *The above recommendations should apply to all companies having a share capital, including private companies.* (*Paragraphs 44, 51.*)

(*7*) *In the case of a company having shares of no par value, the whole of the proceeds of an issue, whether of preference or ordinary shares and be it the first or a subsequent issue, should be carried to "stated capital account," but preliminary expenses, commissions and expenses of issue should be charged to that account. In the case of an issue for a consideration other than cash, there should be carried to stated capital account a sum equal to the value of the consideration as assessed by the directors, preliminary expenses, commissions and expenses of issue, if any, being charged to that account. A note of all such expenses and commissions should be included each year in the balance sheet laid before the shareholders for two years after they are first so charged.* (*Paragraphs 45, 52(2), 52(5).*)

(*8*) *Where a company having ordinary shares of a nominal value converts such shares into shares of no par value, the whole of its paid-up capital (whether ordinary or preference), together with its share premium account, should be carried to stated capital account; and conversely, where a company converts its shares of no par value into shares having a nominal value, the stated capital should be carried to paid-up share capital account.* (*Paragraphs 46, 52(3), 52(4).*)

(*9*) *The transfer of reserves and other sums to stated capital account, thus "freezing" them, and the splitting of shares of no par value should require approval by special resolution.* (*Paragraph 62.*)

(*10*) *Where there is no substantial change in the ownership of an undertaking as the result of a reconstruction or amalgamation, revenue reserves which existed before the reconstruction or amalgamation should not be "frozen." This facility should be extended to companies with shares having a nominal value.* (*Paragraph 65.*)

(*11*) *Some consequential changes will be necessary in the registration fees and capital duty imposed on companies: there should be no discrimination of any kind in the incidence of duty as between companies under either system.* (*Paragraphs 70, 71.*)

Note: *This summary of recommendations indicates the manner in which the Companies Act, 1948, would, in the opinion of the majority of the committee, require to be amended. The committee remarks that if the recommendations were adopted, a number of consequential amendments to the Act would no doubt be necessary.*

Summary of Conclusions of Minority (Mr. W. B. Beard)

(*1*) *My view is that my colleagues who have signed the Majority Report have given too much weight to the technical issues and as a consequence have failed to take sufficiently into account the wider public interest. They have, in addition, attributed to no-par-value shares advantages which would not be yielded by such shares.*

(*2*) *Nor can the committee point to any strong or general demand for no-par-value shares. While a demand exists among some professional investors and speculators there is an equally strong or even stronger opposition from the trade union movement to which insufficient importance has been attached.*

(*3*) *Every effort should be made by responsible bodies to present simply and intelligibly to the public, to investors and to workpeople the facts of company finance. While this responsibility extends, so far as their members are concerned, to trade unions, a primary responsibility must obviously lie upon employers and directors to make available far more information than they do now. I am convinced that far more would be gained by such an educational process than would be achieved by any change in the law.*

(*4*) *Looking beyond the technical issues of no-par-value shares to the wider public interest to which our terms of reference enjoined us to have regard, I am satisfied that no case has been made out for introduction of such a system. I therefore recommend most strongly that no amendment for this purpose should be made to the Companies Act, 1948.*

I—The Theory of No-Par-Value Capital

By W. T. BAXTER
Professor of Accounting, London School of Economics, University of London
and L. C. B. GOWER
Professor of Commercial Law, London School of Economics, University of London

The setting up of the Departmental Committee on Shares of No Par Value suggested that the Government was not ill-disposed to this form of capital. Now that seven of the Committee's eight members have signed a report that is very favourable to such shares, only the misgivings of organised labour seem to stand in the way of an amendment of the law, and these misgivings—as it is hoped to show—appear to be based on a misunderstanding. Accordingly, accountants may before long be faced with a set of problems that are new to British practice. The problems will involve points of (1) theory, (2) accounting, and (3) law; and so we shall marshall our views under these three heads.[1]

Money Rights and Non-Money Rights

The man who puts £100 into a savings bank makes an investment whose terms are both familiar and certain. He receives a pass-book that clearly shows £100 at his credit; he is sure to earn an annual sum of interest that is a percentage of £100; and he is also sure to get back his £100 when he decides to close the account. The symbol "£100" thus conveys an accurate picture of his rights, since these are defined strictly in terms of money. He can aptly speak of his "£100 investment," for his asset is not very different from cash.

Next, suppose instead that he contributes his £100 as a share in some private trading venture or partnership. Here the facts are quite different. But they are still familiar, and he is not likely to have any doubts about the nature of his investment. He knows, even if he is not expert in law or business, that he no longer has something that can certainly be changed back into £100 of cash; instead, he has rights in an enterprise. He knows, too, that these rights depend on the terms of his agreement with his partners; and that the value of the enterprise—and therefore of his share in it—may vary from day to day according to all the countless circumstances and hazards of trade. His grasp of these truths will probably be undiminished even if he is shown a balance sheet in which his capital is stated in print to be "£100"; his common sense tells him that the figure is history, and not a guarantee of present worth or future repayment. In short, he is well aware that his rights can no longer be defined in terms of money, and that the symbol "£100" has largely lost its meaning where his investment is concerned.

In this second case, however, the man's perception of the nature of his investment might not always remain so clear if great stress were often put on the term "£100." If he received a certificate with "£100" printed on it, and if his dividend were always expressed as a percentage of £100, and if all the partnership accounts linked his share with the sum of £100, and if legal documents described his share as being of £100, and if common speech dragged in the £100 on all occasions—in short, if the money label were used as incessantly as if it really meant something—then his understanding might pardonably be clouded. Suggestion on this scale is hard to withstand.

Here in a nutshell is the case for shares of no par value. A holding in the share-capital of a company is in nature like the second investment in the partnership; but the use of par value obscures the facts, and suggests instead the deposit in a savings bank. Only somewhat sophisticated investors are able to shake off all the effects of this suggestion.

Fundamentally, the issue at stake here is the distinction between the *name* of a thing and what the thing *is*. A stock exchange security is a set of rights—for example, to yearly payments of income and a final return of capital. These rights are defined, not by the name of the security, but in a set of rules that forms the basis of contract between company and investor. Let us look more closely at the rules governing the various kinds of securities, and see how far nominal values are apt.

Debentures and Notes

To the extent that a company is financed by debentures and notes, the use of par value seems defensible; here our analogy with the deposit in the savings bank is fairly close. Thus a debenture may involve payment of £5 a year and a final return of £100; particularly if this £100 is well secured, and redemption date is not too

[1] Parts I and III of this article are developed from a memorandum submitted by the authors to the Departmental Committee. Part II will appear in our June issue and Part III in our July issue.

remote, the phrase "£100 of debenture stock" is a reasonably accurate name for the rights in question, and the printing of "£100" on the certificate is not likely to do much harm.

Equity Capital

Some portion of a company's capital, however, must be raised on less rigid terms. The underlying wealth of the business (whether thought of as present assets or as future receipts) has hardly ever a fixed value in terms of money; this becomes plain if an inflation occurs or if the business is unusually fortunate or unfortunate, for the money-value of the business then changes—perhaps to a dramatic extent. Because of this changeability, a business cannot be entirely financed by investors with rights defined in terms of fixed sums of money. Someone must be willing to bear the risks—that is, to accept rights of a more elastic type. This class (let us call it the "equity shareholders") voluntarily takes its stand at the tail-end of the queue for benefits, and is content to receive an unpredictable residue (both of annual income and of ultimate return of capital).

An interest in a company's equity must therefore be defined as a right, not to so many pounds, but to an arithmetical proportion of whatever surplus is left—be it large or small—after money-claims have been met. The most usual type of equity interest is of course Ordinary capital. Ordinary dividends and prices are therefore apt to be mercurial, and to move abruptly up and down with the company's fortunes. However, although the equity-shareholder assumes the risks of his company, he sheds some of the risks of money; when the value of the £ is changing, his shares may (in real terms) be more stable than debentures.

Thus the whole *raison d'être* of equity capital is to absorb changes in the money-value of the company; and the very essence of the rules governing such capital is that it is not tied to a fixed quantity of money, but can change its money-value with complete freedom. That being the case, any name that implies a fixed money-value is peculiarly unsuitable. Just as a partner in an unincorporated firm can say "I have a half share in Messrs. X and Y," so an ordinary shareholder might say "I have a $\frac{213}{100,000}$ share in X.Y. Ltd." Unfortunately this accurate phrase is too cumbersome for general use.

So far, we have assumed that par value can at least be justified on historical grounds—that it is the price paid for shares at their first issue. But even this may not be true. Shares are often issued at a premium, and sometimes at a discount; in these cases, the meaning of par may well elude definition.

The Effect of Reserves

Our argument has also so far assumed that the equity-shareholders contribute a certain quantum of real assets (admittedly with a changeable money-value) to the business, and stop at that. In fact, they usually keep on contributing more and more real assets, by ploughing back profits. Where firms are untrammelled by company law, they show this process for what it truly is—additions to equity-capital; thus a private trader who begins the year with £10,000 of capital, and who then earns (and leaves in his business) £4,000 of profit, normally drafts his end-of-year balance sheet in some such way as:

Capital:	£
Opening balance	10,000
Add: Profit for year	4,000
Closing balance	£14,000

and £14,000 becomes the opening capital at the start of next year. But the rules of company law prevent such informal changes in capital account, and so, when a company retains current earnings in the same way, the additions must go under some other heading, for example, "reserve," and must be kept permanently apart from capital in the balance sheet:

Interest of equity-shareholders in the business:	
Share-capital	£
10,000 ordinary shares of £1 ...	10,000
Revenue reserve	4,000
	£14,000

The true capital has now risen, thanks to the savings of the equity-holders, to £14,000. Indeed, if the procedure paid due regard to the regulations, two sets of cheques for £4,000 could be exchanged between company and shareholders, and then 4,000 new shares could be issued as evidence of the capitalised profit. Yet in practice the figure of £10,000 tends to stand indefinitely, even though the equity-holders continue to save each year, and so increase their investment until reserves perhaps exceed the original capital of £10,000. In these circumstances, phrases such as "a £1 share" and "a 10 per cent. dividend" are most unhappy, and the case against the use of par value is strengthened still further.

The issue of free bonus shares can to some extent overcome the objections to par-value shares. The large number of such issues in recent years (when inflation has brought the anomalies of par value into sharp focus) stresses the extent to which par values have diverged from earning power. But the issue of bonus shares is a costly, rough-and-ready, and temporary cure. Moreover it is one which is peculiarly liable to cause misunderstanding; and in so far as it tends to encourage realisation of the bonus by shareholders, and the spending of the proceeds on consumption, it may decrease national saving.

Early Theories Regarding Par

We can readily understand why early legislation and practice put such stress on par value. When the limitation of liability was still a hazardous experiment, to warn potential creditors that the "contributories" need pay

only some maximum amount of capital, and to stipulate that this amount could not be reduced, or (once paid in) could not be withdrawn, would seem obvious precautions. No doubt par appeared a suitable device for achieving these ends. We now know that it is not. Shares may in fact not only be issued at a premium or discount, but also as a consideration for assets other than cash. Moreover, share denominations are now very different from what the founding fathers of our company law expected. In place of the £100 or £10 share, partly paid, we now generally find shares ranging from £1 downwards, almost always fully paid; uncalled liability (the only really solid protection for creditors) has been practically eradicated except in the case of the banks, insurance companies, and similar financial institutions. And the nadir of " capital " as a guarantee fund is reached when we find a company on the register with a share capital of $\frac{1}{2}$d. divided into two $\frac{1}{4}$d. shares !

Time has modified our notions on the permanence and size of the guarantee fund in other ways. New statutes and decisions have made drastic changes in what is treated as non-distributable capital—sometimes strengthening the original concept, sometimes weakening it. And views on the worth of shares have perhaps been altered by a century's experience of stock exchange transactions, and by developments in the theory of value; our theories now tend to recognise that the market fixes prices in the light of expected future receipts, not of figures with historic significance only.

Preference Shares and Par

When we pass from Ordinary to Preference capital, the distinction between money rights and non-money rights becomes less clear. Into which group do Preference rights fall? The arguments here are nicely balanced. The Committee has recommended that freedom from the shackles of par value should extend only to Ordinary shares (including shares " by whatever name called, such as ' preferred ordinary ' or ' deferred ordinary,' which do not have either a fixed dividend element or a fixed element of repayment of capital "); but the *pros* and *cons* are still worth consideration.

With Preference capital, the links with money may be close. In particular, the maximum rights to annual dividend are defined in money terms. On the other hand, dividends are sometimes not declared. And the stock exchange price varies considerably, in tune with general rates of interest and the circumstances of the particular company (for example, the cover-margin given by profits).

In the case of redeemable Preference shares, the link with money is strengthened by the possibility of redemption—though the date may be variable and remote, and the redemption figure need not be par. With irredeemable shares, final repayment may or may not exceed par, according to the vagaries of the company's rules and of case law. Recent cases have shown that the articles governing the redemption of Preference shares may be very vague, and that at redemption the rights of Preference shareholders may be surprisingly weak. And, whatever the holders' rights on paper, the company may in fact not have enough money left, after settling with creditors, to repay even the par figure.

Thus Preference shares combine a strong suggestion of fixed-money rights with a possibility that the rights may in the event prove watery. In such circumstances, potential investors should surely be warned not to bank on appearances, but to get to the heart of the matter by studying the company's rules with care. And this is precisely the intention underlying no-par-value capital. There thus seems to us to be a valid case for the use of no par value with Preference shares, and we are somewhat regretful that the Committee takes the contrary view.

Confusion Caused by Par Value

No one would suggest that persons highly-skilled in financial matters are likely to be misled by par values. On the other hand, the great majority of people obviously have little opportunity of getting such specialist knowledge. We may reasonably suppose that such people, when confronted by words that seem quite familiar but in fact have meanings very different from those of everyday speech, jump to wrong conclusions. Judging for example from the prior misconceptions of persons who have come to us for advice on investment matters, we think that misunderstanding is widespread.

While we do not in general suppose that the class-room provides faithful evidence of what goes on in the outside world, perhaps students' difficulties over par value are worth mentioning. We find that university students—even those specialising in law, accounting, and allied subjects—have much trouble in understanding par value; and that their trouble may persist even when they have read those subjects to a fairly advanced stage, under teachers who put stress on company finance. Their confusion shows unmistakably in their written work. A straightforward question on the nature of equity rights may perhaps be sensibly answered after adequate training; but a slightly more difficult problem—dealing, for example, with the consequences of bonus issues or reconstruction schemes—is apt to trip up quite intelligent students. The experience of the examiners of the Society of Incorporated Accountants would, we fancy, confirm this.

Public pronouncements regarding bonus shares and reconstructions provide perhaps the best available evidence that confusion is not confined to persons unversed in worldly affairs. Things said during Parliamentary debates on bonus shares suggest remarkable misconceptions on the part of Members of Parliament having a deep interest in our economic life; and these things are echoed in journals written for educated readers.[2] And the approval given by

[2] Even members of the Cohen Committee did not seem wholly immune; see, for example, questions 1310 and 1311 during the oral evidence of Mr. Acworth.

our Courts to reconstruction schemes of dubious fairness can often be explained, we are tempted to suppose, only on the assumption that even Judges may have a less than perfect realisation of what is at stake.

Ill Results of Confusion Over Par Value

If misunderstanding is as common and grave as we believe, it must lead to many unfortunate results.

Par value gives unnecessary trouble to investors, and exposes them to unnecessary risks. Many people are likely to be deluded when buying shares; to quote an American writer:

> It was thought that the engraving of $100 upon a share of stock oftentimes led the investor to pay, if not the full $100, at least a larger sum than he would have paid if freed from the hypnotic effect of the $100 emblazoned upon the certificate.[3]

They may also be lulled into a false sense of security when their investment is sinking in value, or fail to recognise that it has appreciated. Such artificial obstacles to understanding are specially unfortunate at a time when national welfare depends so much on the appearance of fresh sources of risk capital, and on the "democratisation" of investment.

Again, most people have difficulty in making a fair appraisal of business when dividends are expressed as percentages of nominal capital. Of course, companies are not bound to declare dividends as a percentage of par-value capital; but even if they—very sensibly—state the dividend as "*x*d. per share" (and this is seldom done) the public will inevitably tend to relate the dividend to par value if the share has one.[4] Much criticism by politicians and labour springs from false impressions caused in this way. A dividend can with justice be called "excessive" only if it is unduly high as a percentage of *total equity*—that is, capital, accumulated profits, and reserves (including reserves that are—or could be—formed by revaluing assets at current replacement cost).

Ill Effects on Capital Reorganisation

Schemes for changes in par-value capital are particularly apt to cause false impressions. The issue of bonus shares can evoke ludicrously unsound criticism. If a partner's one-half share in a business is for some odd reason re-named a two-fourths share, nobody will suppose that his rights have improved; but if the number of his Ordinary shares in a company is doubled by a one-for-one bonus issue, he will probably congratulate himself, and the company will come under heavy political fire.

Similarly, the writing down of capital may be surrounded by misunderstanding and injustice. Such reconstructions tend to be unfair to Preference shareholders. When the value of a business has fallen and the assets are to be written down, an equal sum must also be subtracted from share capital, etc. The proposal may then be made that part of this loss should be deducted from the Preference capital and the remainder (perhaps a far bigger sum) from the Ordinary capital. Such a scheme has a plausible air of fairness—indeed, even of generosity on the part of the Ordinary shareholders. However, if a £1 Preference share is written down to say 10s., rights to fixed-money dividend (and probably to ultimate capital repayment) are thereby halved; whereas if a £1 Ordinary share is written down—no matter to what extent—its rights to all the residue are unaffected. Thus the Ordinary shares here sacrifice nothing and gain what the Preference shares give up. The Committee do not stress this point, but it seems to us that the fact that such schemes have been proposed by directors, accepted by the Preference shareholders, and approved by a Court[5] whose role is to protect shareholders from injustice is the most telling argument that can be advanced against par values. It is also a strong argument for extending the no-par system, if introduced, to Preference shares.

Par value puts a severe handicap on companies that wish to raise more capital at times when their shares are quoted below par. Though the Companies Act permits issues at a discount under certain conditions, the market does not seem to take kindly to them. The use of no-par value shares would thus remove a disability that is often as irrational as it is embarrassing.

The Minority Report

The only hostile memoranda submitted to the Gedge Committee came from the Trades Union Congress and Mr. Martin Coles Harman (somewhat incongruous allies). The hostility of organised labour expressed by the T.U.C. is also reflected—much more ably—in the Minority Report of the Trades Union representative, Mr. W. B. Beard, O.B.E. This Report makes the following main points:

(1) While it is true that the no-par system represents the ordinary share for what it really is (an aliquot part of the equity), nevertheless this confers no "advantage on no-par-value shares which is not possessed by par-value shares . . . it might, indeed, even be argued that the constant relationship between an investor's holding and the whole of a company's capital is more faithfully represented by the stable nominal value of a par-value share than by the ever-fluctuating market value of an N.P.V. share."

(2) Percentage dividends may be misleading, but "there is no need to amend the Companies Act to make possible the declaration of dividends in pence

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[3] Henry Rand Hatfield: *Accounting: Its Principles and Problems*, page 189.

[4] Note that, with par-value shares, the percentage size of a dividend remains the same even if the shares are sub-divided and so the absolute size of the dividend per share falls rateably. Thus the sub-division of par-value shares does not, as is sometimes claimed, give an escape route from misunderstanding.

[5] For an example, see *Re MacKenzie Ltd.* [1916] 2 Ch. 450.

or shillings per share or, more generally, to enable companies to educate their shareholders—or workers —in the difference between nominal and real capital and between yields and dividends."

(3) The majority of the Committee are right in saying that no-par-value shares would simplify matters analogous to bonus issues and share sub-division. But this would not necessarily be advantageous to the wider public interest. Trade unionists consider that " splits " would be used to hide the fact that dividends were being raised. Statistical evidence suggests that bonus issues have in the past usually been followed by bigger dividend payments. Such increases—in some cases " excessive "—could be " camouflaged " under no par value. As the increases have in some cases been the consequence of " restraint by the trade union movement in demanding wage increases," the legalisation of no par value would have bad effects on industrial relations.

(4) There is no appreciable demand for no-par-value shares.

(5) While the administration of no-par-value shares " could be entrusted with perfect safety to most Boards of directors," the control exercised by shareholders over Boards is too weak to eliminate all chance of abuse.

Plainly the crux of the matter lies in paragraph (3). We feel that here the argument—despite protestations to the contrary—still implies that " excessiveness " in dividends can be measured by simple figures such as nominal percentages. Unfortunately there neither is, nor can be, any easy statistical trick for determining what is " excessive." Certainly nominal percentages are a gross failure as a yardstick; in some cases a 50 per cent. dividend may satisfy all canons of moderation, while in others (for example where many of the assets have been lost) a one per cent. dividend might be too much.

After a stiff inflation, modest dividends must sound high when their rate per cent. is compared with the rates prevailing before inflation; and current exchange values will also tend to exceed nominal values. Thus the par system gives labour an easy and effective weapon to use in wage negotiations. A natural dislike of losing this weapon must inevitably colour labour's attitude to reform of the system.

Conclusions: The Illogicality of Par

To sum up the main argument. A share on whose certificate the printer has put " £1 " may:

(a) Be issued at say 25s., i.e. at a 5s. premium. Thus, in the period of unpaid calls, £1 is *not* the limit of the contributory's liability; nor is it the sum that creditors can rely on the company receiving and retaining.

(b) Have a balance sheet value, thanks to the piling up of reserves, of say 50s. Thus par does *not* reflect the holder's investment in the business even as measured by the accounts.

(c) Be quoted on the stock exchange, thanks to its prospective earnings, at say 62s. Thus par is a most imperfect guide to current price. The longer the time since the original issue, the greater is the likelihood that market value will diverge from par.

(d) Be repaid (if the company is wound up) at say £2.

The £1 thus need not be any of the value figures that are relevant. Why then should we use the " £1 " at all?

It is reassuring to note that foreign experience of no-par capital has on the whole been satisfactory. Belgium long ago legalised *parts sociales sans valeur nominale* on an optional basis; more recently, the U.S.A. and Canada have followed suit and at least forty-six of the forty-eight American States today permit the issue of such capital. The Report confirms that the system, after a good many teething troubles, now works well, and has indeed ceased to be a matter for controversy (any decline in its use being largely due to tax discrimination rather than its own defects). The one abuse cited by our correspondents arises where the law permits part of the issue price to be credited to " surplus " (instead of " capital "), with the result that some of the issue price may be repaid as dividends. This would not be permitted under the majority's proposals.

We appreciate that politically a weakness of the case for reform is that though the dangers of the present system to investors and the public have always existed, business as a whole has hitherto shown little concern. It is only in recent years, when par values have encouraged ignorant criticism of business profits, that there has been any general enthusiasm for the no-par-value system. Nevertheless, it would be lamentable if a reform, desirable in the public interest, could not be implemented merely because some of its belated advocates have shown themselves to be more easily moved by considerations of self-interest than of altruism. Neither company law nor commercial morality insists on altruism, and few reforms would ever be made if the reformers had to prove themselves completely disinterested.

Advocates of any reform are prone to overstate the benefits that their pet schemes would secure. Far be it from us to suggest that no-par shares would bring in a financial millenium. We do not for a moment suppose that such shares would make confusion and mistakes impossible. The fundamental problem would still remain—namely, how are we to teach people to look beyond the symbols on a certificate or balance sheet, and to study instead the facts and rules which alone confer value? The phrase " no par value " at least carries no spurious suggestion of familiar and stable rights, and so should act as a warning of the need for such study. To quote again from an American authority: " A purchaser of such stock, because of the fact that it carries no designated par value, is at once put on notice to investigate the values back of it."[6]

In short, the no-par system cannot force investors to take safe paths. But it would raze a signpost that at present points the wrong way.

[6] Roy B. Kester: *Principles of Accounting* (New York), page 352.

Capel House

We have much pleasure in announcing that Capel House, Enfield, has been most generously given to the Society of Incorporated Accountants by Colonel S. A. Medcalf, O.B.E., T.D., D.L. In addition, Colonel Medcalf is giving investments which will provide an endowment fund towards the upkeep and maintenance of the property. Colonel Medcalf and his sister will remain in occupation of Capel House during their lifetimes; thereafter the property will be used by the Society for educational and research work. Further details of these munificent gifts will appear in our next issue; meanwhile we reproduce some photographs of Capel House, which is scheduled as an historic building and stands about a mile from Enfield, Middlesex, in its own grounds of some sixty acres.

Capel House

Capel House—Entrance Hall

Capel House—Dining Room

Leaves from the Notebook of a Professional Accountant

The Ethics of Lawful Tax Avoidance—II*

By ERNEST EVAN SPICER, F.C.A.

THE RETIREMENT OF A PARTNER FROM A FIRM SOMETIMES provides an opportunity of avoiding, quite lawfully, a limited amount of income tax and consequently, in appropriate cases, sur-tax. Similar remarks apply to cases where an additional partner is introduced into the firm.

We stress the word " sometimes " because the provisions applicable to these claims are by no means one-sided and it does not always pay to make a claim.

The question whether to claim or not to claim will, broadly speaking, depend on the existing assessment for, and the actual profits of, the fiscal year prior to the partnership change, and the estimated profit of the first year following the change. As, however, the taxpayer is granted approximately a full year in which to make up his mind, it usually happens that he is able to make a pretty shrewd guess whether or not such a claim will prove profitable.

The exact date when the retirement or admission of a partner shall take place is also a matter of considerable importance and may have a marked bearing on the extent to which tax can, lawfully, be avoided.

The following example demonstrates the truth of the above remarks.

ILLUSTRATION

Early in the year 1953 Mr. Julian Whiting, acting on the advice of his doctor, decided to leave this country and settle in New Zealand, hoping thereby to regain his health and enjoy the few remaining years of his life in a climate more suited to his frail constitution.

He was the senior partner in the old established firm of Anthony Whiting & Sons, and, fearing lest his withdrawal from active participation in the business might adversely affect the subsequent profits, requested Mr. Greatheart to advise what action should be taken.

Mr. Greatheart, having examined the position, recommended that the date of the retirement should be April 6, 1953, and that the question of submitting a " continuing business " claim under Section 19, Finance Act, 1953 should be deferred until early in March 1954, when a fairly exact estimate of the profit for the year ending March 31, 1954, could be made.

Mr. Whiting questioned the suggested date of his retirement as being somewhat artificial and urged that April 1, 1953 would be a more normal day to choose, having regard to the fact that the firm's accounts were made up to March 31.

Mr. Greatheart, however, explained that, for technical reasons, and bearing in mind that the fiscal year of the country ended on April 5, his proposal was to be preferred.

Early in March, 1954, therefore, the whole position was reviewed and the profit of the year to March 31, 1954 was estimated at £15,000.

A " continuing business " claim was not preferred and Mr. Greatheart submitted computations showing the total assessments for the four years ending 1954-55, on the assumption first that a claim was made, secondly that the date of retirement was April 1, 1953, and lastly that the date of retirement was April 6, 1953.

COMPUTATION No. I.—A continuing claim is preferred:

Assessments	£
1951-52	20,000
1952-53	30,000
1953-54	29,000
1954-55	15,000
Total Assessments ...	£94,000

COMPUTATION No. II.—Retirement April 1, 1953.

Assessments	
1951-52	*Penultimate year*—Assessment increased from £20,000 to £30,000.
1952-53	*Year of cessation*—Assessment reduced from £30,000 to £29,000.
1953-54	*New partnership*—Assessment based on current year's profit of £15,000.
1954-55	*New partnership*—Assessment based on the previous year's profit of £15,000.

* The first part of this article appeared in our April issue, on pages 135-140.

Assessments		£
1951-52	... ...	30,000
1952-53	... ...	29,000
1953-54	... ...	15,000
1954-55	... ...	15,000
Total assessments	...	£89,000

COMPUTATION No. III.—Retirement April 6, 1953.

Assessments

1951-52 *Assessment* £20,000—No adjustment.

1952-53 *Penultimate year*—Assessment £30,000 exceeds current year's profit of £29,000—No adjustment.

1953-54 *Year of cessation*—Assessment on the current year's profit of £15,000.

1954-55 *New partnership*—Assessment on the previous year's profit of £15,000.

Assessments		£
1951-52	... ...	20,000
1952-53	... ...	30,000
1953-54	... ...	15,000
1954-55	... ...	15,000
Total assessments	...	£80,000

Note: The assessment of the penultimate year, though liable to be increased, is never reduced.

* * *

It is thus clear that by choosing April 6, 1953, as the date of Mr. Whiting's retirement from the firm, tax was lawfully avoided on £14,000.

If the date chosen had been April 1, 1953, as suggested by Mr. Whiting, tax on £5,000 only would have been avoided. The delay of five days therefore proved beneficial to the extent of tax on no less than £9,000.

Some people may accuse Mr. Greatheart of doubtful ethics for suggesting April 6 as the most suitable date for the retirement, but the majority would regard him as culpably negligent had he not pointed out this technical pitfall.

Note: The odd days between March 31 and April 5 have, for the sake of simplicity, been ignored, as they often are in practice.

* * *

We will now examine another case which to all outward appearances is identical with that which we have just described.

We will adopt exactly the same figures, the same years, and the same date for the retirement of the partner. In fact, everything will be the same except that on this occasion, all ethical considerations will be allowed to "go by the board."

ILLUSTRATION

Messrs. Welcome & Turnaway, the well-known manufacturers of elbow grease, employ three highly paid confidential clerks, and it usually happens that the name of one of these gentlemen figures on the firm's notepaper as a junior partner.

During the year 1952-53 Mr. John Limber chanced to occupy that position, but on April 6, 1953, in response to the wink of Mr. Welcome and the nod of Mr. Turnaway, he resigned.

It was as clear as anything could be in this world of change that the profit of the year ending March 31, 1954, was likely to fall materially below that of the immediately preceding years. It was also clear that if this melancholy forecast proved to be true, a change in the constitution of the partnership—involving a substantial reduction in taxation—would undoubtedly soften the blow created by the fall in profit.

On the other hand, if a miracle occurred and the forecast proved to be false, no harm would thereby be occasioned, because a "continuing business" claim would be preferred immediately the increased profit could be estimated within a reasonable margin of error. In these circumstances the increase in profit would take the place of a reduction in taxation.

As to Messrs. Welcome & Turnaway, they were ever willing to bet on a certainty.

But what about Mr. Limber? Did he hesitate before taking the leap?

Not for one moment.

He and his colleagues were accustomed to sacrifice themselves on the financial altar of the firm, whether this involved admission to or withdrawal from the partnership.

A lawful avoidance of tax on £14,000, as we now know it to have been, could not be sneezed at, and Mr. Limber did not sneeze.

He resigned—"It was his duty, and he did."

* * *

Do we support this in and out practice of Messrs. Welcome & Turnaway?

We do not.

The retirement of Mr. Limber was not a *bona fide* retirement, as was that of Mr. Julian Whiting. It was organised artificially to effect a lawful but, nevertheless, unethical avoidance of tax.

* * *

Members of the professions sometimes elect to base their income tax returns on cash received during the year, less expenses properly chargeable, rather than on an earnings basis.

For those unversed in the mysteries of double entry book-keeping, this method presents some advantages.

It is simple, which in the eyes of the uninitiated is of supreme importance, notwithstanding the fact (as noted by the great Napoleon) that in matters of taxation, simplicity and equity never yet ran smoothly in double harness. It also avoids all arguments with the Inspector of Taxes regarding reserves for bad and doubtful debts.

On the other hand, such a return is unlikely, in most cases, to disclose a true picture of the earnings of any particular year, owing to the uncollected cash at both the commencement and the end of each period. From the point of view of income tax, this will not matter, since any overpayment in one year will automatically " iron itself out." With sur-tax, however, this is not the case owing to the graduated rates to which that tax is subjected, and in consequence the taxpayer may be forced to pay more than he would under the earnings basis.

ILLUSTRATION

Assuming the real earnings of Mr. X are exactly £8,000 in each of the calendar years 1952 and 1953, he will pay less sur-tax on an earnings basis than he will on a cash basis, if, owing to a delay in getting in the money, the profit for the year 1953-54 amounts to £4,000 only and the profit for the year 1954-55 (which will include £4,000 applicable to the preceding year) to £12,000.

Assuming the standard rate remains at 9s., the amount of income tax payable over the two years will be the same, but Mr. X will pay £450 more in sur-tax under the cash basis than under the earnings basis, and this excess payment, unhappily for Mr. X, will never right itself.

Cash Basis

Fiscal Year	*Assessment*	*Sur-tax payable*
1953-54	4,000	287 10 0
1954-55	12,000	3,037 10 0
	£16,000	£3,325 0 0

Earnings Basis

Fiscal Year	*Assessment*	*Sur-tax payable*
1953-54	8,000	1,437 10 0
1954-55	8,000	1,437 10 0
	£16,000	£2,875 0 0

* * *

It must not be assumed that the cash basis will always prove detrimental to the taxpayer, or that delay in getting in the money will necessarily add to the tax liability.

Cash receipts can occasionally be regulated towards the end of the year, to suit the taxpayer rather than the Inland Revenue. The ethics may be doubtful, but the law cannot criticise a man for failing to press his debtors to pay promptly.

Barristers always pay on a cash basis and they would certainly be extremely foolish were they to adopt any other basis.

Their position is, of course, unique, inasmuch as under their regulations they cannot enter into partnership with one another, and moreover are debarred from suing for their fees. Thus, until they actually receive them in cash, they can never be absolutely sure that they will get them. As solicitors do not normally settle with barristers until some months after the cases have been concluded, it always happens that a successful barrister will have large outstanding sums due to him. If he retires from practice and in consequence ceases to carry on a profession, all amounts received by him subsequent to the date of retirement in respect of outstanding fees are tax free.

It happens therefore that during the months following the retirement a barrister may receive cash in respect of past services, which, in the aggregate, may equal the total spendable income of many years of successful practice at the Bar.

It is a curious paradox that his fortune may thus depend to some extent on his retirement, rather than on his continuation in practice. This is, of course, due to the fact that on the higher levels of income, ·19s. in the £ is payable by way of income tax and sur-tax and thus any sum receivable, which is tax-free, is worth twenty times as much as it would be were it subject to tax.

We hesitate to suggest that a barrister, learned in the law, would ever dream of choosing for his retirement a date best suited to his pocket, but if his conscience permitted him to do so, he might in this manner add materially to his capital. In any case, we can hardly imagine that he would be over eager to reduce the amount of his outstanding fees at the date of his retirement and we do not suppose that solicitors would depart from their normal practice, by paying the fees more promptly, merely for the sake of adding to the barrister's liability to tax.

In this connection it should not be overlooked that, on retirement from practice, the barrister's assessment for that year will be based on the results of the current year and not on those of the preceding year.

It is not right, however, that we should linger longer on the taxation affairs of representatives of the law, and we certainly do not grudge them any fees which they may receive tax-free after retirement. These may quite properly be regarded as representing the value of the goodwill which they are surrendering.

Let us therefore turn to a very different aspect of our subject and consider quite briefly some aspects of the avoidance of estate duty.

* * *

Formerly it was regarded as a duty by most wealthy men to make provision for their dependants under their testamentary dispositions.

Today this has become almost an impossibility, because the richer the man the more probable is it that estate duty will swallow up the whole of the available assets and thus render the testator's laudable intentions incapable of fulfilment.

A prudent millionaire should therefore give some consideration during his lifetime to the vital question of the avoidance of some portion of the estate duty at his death, by transferring property to those who are near and dear

to him, at least five clear years before the curtain drops and the authorities step in and seize all.

The ethics of his action may possibly be questioned by those who hold it to be a crime for anybody to enjoy the fruits of another man's labour, but the views of such persons are often a little warped. They may, in imagination, have killed off all their own relatives and been unable to raise a £5 note from amongst the lot, and quite understandably this may render them a trifle jealous of others whose expectations are brighter.

From the point of view of a rich man, the burden of estate duty is indeed a cruel one. Nobody sympathises with him and few people realise how great the injustice may be.

It is for these reasons that we, who are poor, venture for once to champion the cause of those who are, supposedly, rich.

ILLUSTRATION

Sir John Barleymole was a man upon whom Dame Fortune had, in turn, both smiled and frowned.

He was very rich and enjoyed the best of health, but, for over twenty years, his wife had been in a mental home, his elder son Francis had been completely incapacitated in the first world war and his only daughter, Ruth, suffered intermittently from the scourge which afflicted her mother.

Fortunately, Charles, the younger son, was blessed with mental and physical health and had developed a praiseworthy aptitude for business, being determined to make a career for himself. He took an "Honours" Degree in engineering at Cambridge University and, having completed six and a half years of practical training in the works of Long & Handshaw, Ltd., succeeded in obtaining an important position in the Cumberland Shipbuilding Co., Ltd.

On his twenty-sixth birthday, his father, Sir John, transferred to him a sum of £100,000 and this Charles invested in the shares of sound industrial concerns.

Two years later he married Isobel, the beautiful daughter of the Rev. Averell Sykes, rector of the parish of Overton, near Bath, in Somerset, and having purchased a very charming Georgian house with a beautiful garden, settled down to a happy and useful life.

He loved his wife almost as dearly as she loved him, and it seemed at first as if nothing could intervene to prevent their story from ending in the orthodox manner assumed by the writers of fiction with an absence from sorrow altogether abnormal to the usual lot of humanity.

But fact is often stranger than fiction and a blow fell on these "love birds" which knocked all the paint off the dove cot.

Sir John Barleymole was fatally injured in a motor-car accident on the Great West Road and died before reaching the hospital.

Under his will he had appointed Lloyds Bank and his son Charles executors and trustees, and subject to life annuities in favour of his wife, his elder son Francis and his daughter Ruth, and a few legacies, including £500 to his butler Hawkins and smaller sums to other retainers, he had bequeathed the entire residue to his son Charles.

The estate was valued for purposes of estate duty at £960,000, but to this had to be aggregated the gift to Charles of £100,000, made less than five years prior to the date of Sir John's death, in order to fix the rate of duty applicable both to the estate and to the gift *inter vivos*.

Thus 80 per cent. estate duty, amounting to £768,000, was claimed on the estate of Sir John Barleymole, deceased, and £80,000 on the gift *inter vivos*, payable by Mr. Charles Barleymole.

Sir John's estate, unhappily, included four substantial holdings in the shares of private limited companies, and notwithstanding the protests of the executors, the values placed on these shares by the estate duty authorities under Section 55 of the Finance Act, 1940, proved far in excess of any price obtainable, or which was actually obtained. Other shares also failed to realise the estate duty valuations, and thus, after all the assets had been sold, it was found that the estate had realised £762,500 only, or in other words, £7,500 less than the duty claimed.

Nobody, save the executor bank, the lawyers and the accountants, got a sixpence out of the estate. Nothing was available for the maintenance of Lady Barleymole, or Francis, who had been totally incapacitated serving his country in the first world war, or Ruth, whose mental health needed constant watching and who was thus precluded from earning her own living.

The legacies to the butler and the other servants remained unpaid and they were forced to rely on the promise of Charles to meet these "debts of honour" if and when he found himself in a position to do so.

Charles also found himself in a very embarrassing position. He was called upon to find £80,000 estate duty on the gift which he had received from his father four years previously.

He sold all his investments and put his house in the hands of estate agents, but the offers which he received for the house were so greatly below the price which he had paid, that he very properly refused to sell.

Eventually the Cumberland Shipbuilding Co., Ltd. came to his assistance and offered him a generous price for the house, which was to be used to accommodate the directors who lived at a distance and who previously had been forced to stay at the local hotel. This offer was accompanied with the condition that Mr. and Mrs. Charles Barleymole should continue to occupy the house rent free and that Mrs. Barleymole should act as hostess to the directors on the occasions of their visits, and that she should accept an annual honorarium for her services.

Charles, by exercising the utmost economy, was enabled to pay off his debt to the Inland Revenue over a period of two and a half years. His wife agreed to look after his sister Ruth and the Rev. Averell Sykes immediately offered to provide a home for Francis. Lady Barleymole had to be removed from the private mental home in which she had lived for many years and was placed in a Government institution, but fortunately she had no conception of the causes which necessitated this change.

Thus was a once wealthy family reduced to comparative poverty in a single day, by the operation of estate duty.

Had Sir John left £20,000 instead of £960,000, the bulk

of the estate would have been saved for the benefit of his dependants. But because he died to all intents and purposes a millionaire, the State took all.

Surely there is something rotten in the state of England.

* * *

In conclusion, let us examine the case of a wealthy man who regarded it as a duty to make some provision during his life for those who were near and dear to him, rather than risk leaving them paupers at his death.

Nobody can say that his intentions were unworthy. Did he not, at the steps of the altar, endow his bride with all his wordly goods, and is it not right that he should provide for his children, whether he lives or dies? Is a man to save for the benefit of the State alone, regardless of the interests of those for whose welfare he is responsible?

It may come to this in time, but not yet.

Thus, if there be a risk of the State taking all at death, which, in the case of large estates, must frequently be present, the individual is morally forced to consider during his lifetime the question of the avoidance of some portion of the estate duty which otherwise would be payable at his death.

Let it be granted that the wealthy have had undue advantages in the past—is this a proper reason why they should be treated today with so little regard to what is just and equitable?

The man in the street naturally supposes that an 80 per cent. duty will leave 20 per cent. available, but this is not the case. £800,000 (which is the duty payable on an estate of exactly a million pounds) cannot normally be raised in cash without considerable loss on the estate duty valuations, and all such losses have to be met out of the slender 20 per cent. margin. Thus 80 per cent. often means in practice 90 per cent., or even 100 per cent. Moreover, as the estate duty authorities know full well, large estates do not always realise even 80 per cent. of the official valuations, and thus they are forced to take what they can get, rather than what they ask.

The case of Sir Lazarus Whiting, who died last year, aged 102, illustrates some of the points we have in mind and demonstrates how an honest man may avoid estate duty with an absolutely clear conscience.

ILLUSTRATION

During his lifetime Sir Lazarus Whiting transferred to his wife a sum of £50,000 so that, if he predeceased her, she would have some free capital. He also settled on trustees a further £50,000, on the terms that his wife should receive the income during her life and that, on her death, the capital should go to his grandchildren on reaching the age of 21.

It is true that his wife predeceased him and thus estate duty had to be paid on the property passing on her death, but this did not matter. He paid the duty. His one desire was that she should be provided for in the event of his death.

He settled on trustees the sum of £50,000 for each of his children, the income, at the trustees' discretion, to be accumulated and the child's interest in both capital and accumulations to be contingent on reaching the age of 21.

He did the same to the extent of £10,000 in the case of each of his grandchildren, aged two, and this approximately is how it worked out:

Original Fund	£10,000
Accumulations (*net*) at $4\frac{1}{2}$ per cent. plus compound interest (net) say	5,500
Income Tax Repayment claimed under Section 228 Income Tax Act, 1952, by grandchild on reaching age of 21 (say)	2,500
	£18,000

In each case Sir Lazarus sacrificed gross income of £450 per annum, which after the payment of income tax and sur-tax represented a reduction in spendable income of £22 10s. only.

On his eightieth birthday and subsequently every five years, he gave a party at his house in Dover, to which he invited all his nephews and nieces. On leaving, each received an envelope containing a generous cheque, but never of an amount which would involve the payment of estate duty in the event of his death within five years.

Thus did Sir Lazarus act during his lifetime.

When he died he left a moderate fortune upon which estate duty at 60 per cent. was payable. The property was invested largely in 4 per cent. Victory Bonds and thus no difficulty was experienced in raising the duty. All the legacies were paid in full and the residue was shared equally by his four children.

It is true that Sir Lazarus lived to a great age, but he did not postpone making his benefactions until the grave winked at him. For over fifty years he was always thinking how he could help those who were dear to him to become useful citizens, and he died respected by all and held in true affection by many.

That he avoided estate duty as a result of his many gifts and settlements cannot be denied, but he did it lawfully, and who will dare to say that he was actuated by false ethics?

* * *

And so we close our Notebook.

We do not agree with the extremists, who argue that all forms of lawful tax avoidance are ethically wrong, nor do we agree with those who strain the *dicta* of learned Judges by suggesting that all forms of tax avoidance, which fall within the letter of the law, are necessarily legitimate.

There is a well-known proverb which says that a man cannot roll in the dirt without becoming dirty.

It is, perhaps, well therefore to remember that some forms of tax avoidance, though not unlawful, are, nevertheless, not quite as spotlessly clean as a Dutch cowshed.

(*Concluded*)

The Budget and the Finance Bill

It is an unusual feature to be able to deal both with the Chancellor's speech and the Finance Bill in the same issue. The speech itself contains certain interesting features which are reflected in the Bill and, therefore, we propose to deal only with the latter in this article.

Although there are to be no changes in rates of income tax, sur-tax or profits tax for 1954-55, the Finance Bill contains no less than twenty-eight pages dealing with legislation on income tax, profits tax and estate duty. Much of this is in the now all too familiar terms of cross reference and tortuous wording.

Post-War Credits

Provision is made for repayment of post-war credits where the original holder has died or become bankrupt, but not until the date when the person in question would have become entitled to them by having reached the age of 65 for a man or 60 for a woman. No payments are to be made under this new provision before August 9, 1954.

Investment Allowances

An interesting innovation is the introduction of allowances for new capital expenditure on certain assets. These investment allowances are to be given instead of initial allowances in respect of relevant capital expenditure on new assets incurred after April 6, 1954. The allowance applies broadly to expenditure on all types of asset now qualifying for initial allowance, except secondhand plant and machinery and road vehicles (other than those of a type not commonly used as private vehicles and unsuitable to be so used or those provided wholly or mainly for hire or for the carriage of members of the public in the ordinary course of a trade). These excluded items will continue to qualify for initial allowance.

The rate of investment allowance is to be 10 per cent. in respect of industrial buildings, 20 per cent. for plant and machinery, 20 per cent. in respect of expenditure on construction of works in connection with mines, oil wells, etc., 20 per cent. in respect of scientific research expenditure and 10 per cent. in respect of expenditure on farm and forestry buildings and works. In certain cases the taxpayer has the option of an investment allowance or an initial allowance.

The new allowance will not be deducted in computing the written down value for the purpose of annual allowances, balancing allowances or balancing charges and is, therefore, in the nature of a subsidy.

It should be appreciated that the initial allowance was simply an acceleration of the total allowances over the lifetime of the asset. The new investment allowance will mean that the taxpayer will be able to write off over the lifetime of the asset the whole cost to him and will also have the additional 20 per cent. of the cost price. The benefit of the new allowance will not be felt immediately, however, but will result in larger annual allowances after the first year and a bigger balancing allowance or smaller balancing charge at the end. For example, if the basic rate of annual allowance was 8 per cent., giving an effective annual allowance of 10 per cent., hitherto on plant costing £1,000 there was available in the first year £300 (initial allowance 20 per cent., annual allowance 10 per cent.). The allowance in the second year, however, would be 10 per cent. of the remaining £700, or £70. In future there will still be available £300 in the first year but the annual allowance in the second year will be 10 per cent. of £900, or £90, with correspondingly larger annual allowances in future and, of course, a bigger balancing allowance or smaller balancing charge as the case may be.

In the case of agricultural expenditure, of course, the new allowance is all a present windfall, as there was no initial allowance.

Capital Reconstructions

Companies have been reconstructed in recent years with the sole object of taking advantage of the "cessation and new" basis of assessment where profits have fallen. The Bill contains provision for treating such reconstructions as continuing businesses, provided that not less than a three-fourths share of the ordinary share capital belongs to the same persons after the reconstruction. The provisions are too long to be summarised here and will be dealt with later. It is sufficient to say at the moment that the provisions may benefit certain companies which are reconstructing for purposes other than avoidance of tax. Reconstructions have sometimes been held up in the past because of the effect of the cessation provisions on rising profits, and it seems that the proposed legislation will enable appropriate companies to carry on on the previous year basis.

Losses

On the discontinuance of a business a right is to be given to carry a loss sustained in the last year back against the assessments of the three preceding years. The provisions will be discussed later.

Hitherto investment holding companies have not been able to obtain any relief for management expenses in excess of the income of the year. In future they are to be allowed to carry forward the excess expenses and get relief from subsequent excess income. It is probable that some life assurance companies may benefit rather more than investment holding companies.

Capital Allowances

The concession hitherto given of allowing capital allowances to be added to a loss for the purposes of Section 341 is to be made statutory. This is very satisfactory. The fewer concessions the better, because they are not always known to the individual taxpayer. Of course, it must be admitted that the law also is not known by him, but it is much easier for his advisers if they can deal with the law rather than with something which is extra-statutory.

There is to be an amendment of the anti-avoidance provisions affecting sales between companies under common control, etc.

Demolition Costs

The costs of demolishing a building or structure are to be regarded as part of the cost of the building, etc., for the purposes of balancing allowances and balancing charges. The cost of demolishing machinery or plant is to be treated in a similar manner.

Cemeteries

Provision is to be made for capital allowances in respect of capital expenditure incurred by a person carrying on the trade in providing any land in a cemetery and in connection with buildings or structures likely to have little or no value when the cemetery is full.

Consular Officers and Employees

Where a consular officer or employee in the United Kingdom of a foreign State is not a citizen of the United Kingdom or Colonies and is not engaged in any trade, etc., or employment in the United Kingdom otherwise than in his official position, and either is a permanent employee of that State or was not ordinarily resident in the United Kingdom immediately before he became a consular officer, etc., in the United Kingdom, any of his income falling within Case IV or V of Schedule D is to be exempt from income tax and he is to be treated as not resident for the purpose of

the Sections exempting certain dividends, etc., of non-residents. A person who is not a national of the foreign State but is a citizen of the United Kingdom or Colonies will have to pay tax on his emoluments.

Estate Duty

Where a business or an interest therein passes on a death, the rate of estate duty is to be reduced by 45 per cent. in respect of industrial hereditaments used or occupied for the purpose of the trade and in respect of machinery or plant so used. If shares or debentures of a company are charged on an assets basis under Section 55 of the Finance Act, 1940, the reduced rate of duty is to be chargeable on the relevant portion of the net value of the shares or debentures. If the company is engaged in husbandry or forestry the reduced rates are to apply to such portion of the net value as is attributable to agricultural value of agricultural property occupied by the company. The new provisions are not to apply to a business carried on in the exercise of a profession or vocation or carried on otherwise than for gain.

Section 55 of the Finance Act, 1940, is to be amended quite considerably. The definition of control is to be changed. Section 55 will apply if, during a continuous period of two years falling wholly or partly within the five ending with his death, the deceased had powers equivalent to control of the company. This will get rid of those cases which were brought within the Section largely accidentally, e.g. as a result of holding shares for a short period on a death. If the shares or debentures are sold within three years after the death the sale price will normally be regarded as the maximum value of the shares, subject to differences in circumstances between the date of sale and date of death. This will not apply where there is some mutuality between vendor and purchaser or where the sale was not at arm's length. Gifts of shares or debentures *inter vivos* to employees or their relatives will not be valued under Section 55. We shall return to the appropriate four clauses in a later issue but must mention here that the following important innovations are included:

(*a*) In valuing assets for Section 46 or Section 55, any liability of the company arising or which may arise after the death for taxation on income or profits is to be taken into account in so far as the liability or its amount is referable to income or profits accruing before the death. This provision for future taxation is a somewhat revolutionary step but a very fair one.

(*b*) Quick succession relief is to apply to shares valued under Section 55 on a second death within five years.

(*c*) If a company has issued to holders of any shares other shares as fully paid bonus shares the bonus shares are to be treated as if they were derived from the shares in respect of which the issue was made. It seems that this will negative the loophole arising from the decision in *Attorney-General* v. *Oldham* (1940, 2 K.B. 485).

It is proposed to increase from £2,000 to £10,000 the limit for non-aggregation of small estates with settled property.

Where the property which passes on the death, but in which the deceased never had an interest, includes any policies of assurance on his life or monies received under such a policy, etc., the rate of estate duty to be paid is to be determined by aggregating the policies, etc., amongst themselves. It seems, therefore, that nomination policies will still not be aggregated with the other property passing on death but that the practice of taking out several policies, each of which has hitherto been an estate by itself, will in future effect no more saving than if one policy were taken out for a larger sum.

We shall expect some interesting debates on—and amendments in—the Bill!

The usual Budget tables appear on pages 184-5.

Taxation Notes

Repairs

IT IS IMPORTANT TO DISTINGUISH BETWEEN Schedules A and D regarding the deduction, etc., for repairs to premises.

Section 137, Income Tax Act, 1952, provides that in computing the profits to be charged under Case I or Case II of Schedule D, no sum is to be deducted for repairs of premises beyond the sum actually expended for the purposes of the trade. The tests under these Cases, therefore, are: (1) is the expenditure for the purposes of the trade? (2) is it for repairs and not for improvements?

Thus a new reservoir twice the capacity of the old one and better in other respects has been held to be all improvement (*Margrett* v. *Lowestoft Water & Gas Co.* (1935, 19 T.C. 481)) and the cost of replacing a factory chimney by another of an improved type was held to be capital expenditure (*O'Grady* v. *Bullcroft Main Collieries* (1932, 17 T.C. 93)). In *Samuel Jones & Co.* (*Devondale*) v. *C.I.R.* (1951, 32 T.C. 513), on the other hand, the cost of replacing a factory chimney, and the cost of removing the old one, were allowed as deductions.

In the *O'Grady* case, the chimney was at the pithead of a colliery, and the Judge regarded it as the entirety. In the *Jones & Co.* case the Judges regarded it as "physically, commercially and functionally an inseparable part of an 'entirety,' which is the factory . . . one of many subsidiary parts of a single industrial profit-earning undertaking." In the *Lowestoft* case the reservoir and its plant was regarded as a separate and distinct thing "perfectly clearly divisible" from the rest of the undertaking.

We thus get the rule that replacement of a whole asset is capital; replacement of a part is revenue.

In *Lawrie* v. *C.I.R.* (1952, 31 A.T.C. 327), no repairs had been done to a roof for some twelve years, and it was decided to reconstruct the whole roof and at the same time to lengthen, heighten and strengthen the whole building. It was held that the cost must be treated as of a capital nature since there was no provision for analysing this to allow a hypothetical cost of repairs.

This decision goes further than the practice in some respects, since in some instances the Revenue will allow the notional cost of repair where replacement is found to be a better bargain. Under Schedule A there is an official concession: "The estimated cost of repairs obviated by alterations is allowed, provided the alterations have not created a new subject of assessment."

The cost of putting a newly acquired asset into repair is capital expenditure for Cases I and II (*Law Shipping Co.* v. *C.I.R.* (1924, 12 T.C. 621)). Only the cost of repairs attributable to the period the asset is employed in the trade is incurred for the purposes of the trade (i.e. in running the business). A similar principle applies to expenditure on a derequisitioned ship—the cost of repairs arising out of the use of the ship

by others is not allowable (*C.I.R.* v. *Granite City Steam Ship Co.* (1927, 13 T.C. 1)). Accumulated repairs can only be allowed under Cases I and II where they have accumulated during the use of the asset in the trade in question.

It must be borne in mind that any expenditure capitalised on assets to which capital allowances apply attracts those allowances.

When we come to Schedule A, we find that the *Law Shipping* case is inappropriate. Had the previous owner done the repairs, they would go into the five years' average; they do so when the new owner does them. But there is a limitation on the expenditure, in that repayment of tax on a maintenance claim is limited to the tax on the net annual value, except in the case of agricultural and forestry works. An owner-occupier of a farm can include the latter in his accounts for Schedule D; if any is disallowed it can go into a maintenance claim, and where the claim exceeds the net annual value, the excess can be set against other income. Non-agricultural maintenance claims are limited to the net annual value.

It is always a matter for reflection whether to charge repairs for Schedule D or to make a maintenance claim. In general, it is usually better to charge under Schedule D where that is possible. A tenant, of course, has only the Schedule D route to follow; he has no option unless he is in beneficial occupation.

The Tucker Committee Report —Present Practice

Few readers of the Report of the Committee on the Taxation Treatment of Provisions for Retirement—see our articles on the Report in ACCOUNTANCY for March, pages 96-102, and for April, pages 140-1—can have imagined that there were so many diversities of provisions for retirement benefits as there are. The benefits may take the form of a pension or a lump sum, or both. The benefits may carry on for a widow or dependants. Schemes may be for some or all employees; may be contractual or *ex gratia*; may be contributory or non-contributory; may be run under a separate trust deed or through assurance companies; or may be provided by the employer without prior contribution.

The report summarises the main types of arrangements as follows:

(*a*) statutory superannuation schemes;

(*b*) schemes operated by means of a trust fund;

(*c*) schemes operated by means of group or individual assurance policies or deferred annuity contracts;

(*d*) provident funds;

(*e*) provisions for pensions and similar benefits contained in service agreements;

(*f*) *ex gratia* payments.

It is not proposed here to summarise the existing law. It can be said briefly that, in general, employers' contributions to provide future retirement benefits for employees are allowable as trade expenses, unless they are of a capital nature. Also, retirement pensions paid out of business resources, whether as pension or lump sum, are allowable. Employees' contributions are allowable as deductions from their incomes under Schedule E if the scheme is a statutory one or one approved by the Revenue under the Income Tax Acts. Premiums paid under an annual scheme are eligible for life assurance relief, provided a capital sum is payable on death; otherwise relief is restricted to relief on £100. The relief is thus normally two-fifths of the contribution. The retirements benefits provisions introduced in 1947 may make the employee liable to income tax on the notional value of contributions by an employer towards such benefits where the employee's interest is only contingent.

Benefits received by the employee are usually liable to tax even though *ex gratia*. Lump sum payments are liable if the contract of employment gives the employee the absolute right to them, but lump sums paid in lieu of or to supplement a pension are not liable to tax.

The 1947 legislation was designed to protect the Exchequer by limiting the immunity of the employee from tax liability during his service in respect of the employers' provision of retirement benefits. Like some other restrictive legislation, it threw the limelight on what was going on and "top hat" schemes have increased as a result.

—And the Recommended Changes

The Committee recommended that all schemes in future should require the Revenue's approval as within the framework of the Acts and conforming to specified rules (which the Board should have discretion to relax); that regular annual contributions by employers be treated as allowable expenses; their other contributions to be spread over a series of future years; that an employee should not be liable on employers' contributions, nor on his own contributions (up to 15 per cent. of his remuneration of each year with a carry forward of any excess for relief in future years); that the investment income of approved funds be exempted from tax; but that all pensions be taxable as they become payable, with the exception that where there is a provision for building up not more than one-quarter of the capital value of the total retirement benefit to be paid as a lump sum, the lump sum should be tax free. The maximum lump sum should be £10,000, but where one-quarter of the capital value of the benefit would be under £1,000, up to £1,000 should be allowed as the lump sum payment exempt from tax, and if the balance is not more than £500, the balance should also be allowed to be paid as a lump sum but a commuted amount of tax should be payable on the balance. Recommendations are made on many other aspects—these ought to be read in detail by those interested.

It is worthy of note that the Committee could not see its way to recommend the abolition of the existing distinction between "controlling directors" on the one hand and ordinary employees or whole time service directors on the other. (The position of controlling directors was discussed in the article in our March issue (pages 101-2) on the subject of the self-employed and other persons not eligible for existing pension schemes.) This means that any director (whole or part-time) of a director-controlled company, who is not a whole-time service director under the profits tax definition, is ineligible for treatment as an employee. The "five per cent. holding" rule seems small; a director with ten per cent. voice has little more influence than one with five per cent!

Part time directors are rarely considered as entitled to participation in a pension scheme, and it seems reasonable that any such participation should be left to the Revenue discretion in approving the scheme. These directors must usually look forward to the implementation of the recommendations on self-employed persons; or to their post-war credits !

Directors' Benefits

Evidence continues to come to hand of the drive being made by the Inland Revenue on the subject of directors' benefits. The term includes, of course, benefits of employees earning over £2,000 a year including disallowed expenses. It seems that all dispensations are being reviewed and many withdrawn so as to put the directors or employees on proof of their expenditure. We are sure it would be helpful to our readers and their clients if experiences were pooled on this matter. Amongst the things which have come to our notice is a distinction between entertaining paid direct by a company and entertaining paid personally by a director and reimbursed by the company. There is some subtle distinction here which escapes us. It is also reported that where a company runs a scheme under which members of the staff receive medical and hospital treatment as private patients, the premium paid under the group insurance scheme for this purpose is regarded as a benefit. Yet we know of cases where meal vouchers which are not used can be exchanged for cash and the Revenue pass these as exempt from tax in the case of what may be called " ordinary " employees.

Budget Estimates, 1954-55

ORDINARY REVENUE AND EXPENDITURE*

Estimated Revenue

	£000	£000
Inland Revenue—		
Income Tax	1,800,000	
Sur-tax	132,000	
Death Duties	164,375	
Stamps	55,000	
Profits Tax and Excess Profits Tax ..	172,000	
Excess Profits Levy	60,000	
Other Inland Revenue Duties ..	1,000	
Total Inland Revenue ..		2,384,375
Customs and Excise—		
Customs	1,062,500	
Excise	719,000	
Total Customs and Excise		1,781,500
Motor Vehicle Duties		77,000
Total Receipts from Taxes ..		4,242,875
Broadcast Receiving Licences		21,000‡
Receipts from sundry loans		24,000
Miscellaneous		245,000
Total Revenue		4,532,875

Estimated Expenditure

	£000	£000	£000
Interest and management of the National Debt			570,000†
Sinking Funds			36,000
Payments to Northern Ireland Exchequer			51,000
Other Consolidated Fund Services			10,000
Total			667,000
Supply Services—			
Defence—			
Army Votes	561,000		
Navy Votes	367,000		
Air Votes	537,000		
Ministry of Supply (Defence)	151,000		
Ministry of Defence	23,904		
	1,639,904		
Less—American Aid receipts appropriated in aid of Defence Votes	85,360		
		1,554,544	
Civil—			
I. Central Government and Finance ..	20,808		
II. Commonwealth and Foreign ..	106,995		
III. Home Department, Law and Justice	85,852		
IV. Education and Broadcasting ..	328,537		
V. Health, Housing and Local Government	612,698		
VI. Trade, Labour, Materials and Supply	140,785		
VII. Common Services (Works, Stationery etc.)	68,502		
VIII. Agriculture and Food	338,026		
IX. Transport, Fuel, Power, and Industrial Research	138,639		
X. Pensions, National Insurance and National Assistance	412,783		
		2,253,625	
Post Office Vote (excess over revenue)		340	
Tax Collection—			
Customs and Excise and Inland Revenue Votes		46,890	
		3,855,399	
Total Expenditure			4,522,399
Surplus			10,476
			4,532,875

* The self-balancing revenue and expenditure amounts to £240,300,000, of which Post Office expenditure corresponding to revenue is £237,800,000 and Excess Profits Tax post-war refunds (part deducted for tax) £2,500,000.

† In addition £105 million for interest on the National Debt will be met from receipts under various Acts authorising such application.

‡ Includes proceeds of increased licence fees announced on March 2, 1954.

1953-54 Outturn and 1954-55 Budget Estimate

New (alternative) Classification

(after 1954-55 taxation changes)

REVENUE ITEMS

Receipts	£million 1953-54 Outturn	£million 1954-55 Estimate	Payments	£ million 1953-54 Outturn	£ million 1954-55 Estimate
Tax Revenue*	4,177	4,243	Interest on Debt*	580	570
Broadcast Licences*	17	21	Interest outside Budget	87	105
Sundry Loans (Interest)*	9	8	Post-war Credits	17	36
Miscellaneous*	47	30	Other Expenditure*	3,440	3,690
Interest outside Budget	87	105			
Housing receipts from Votes	21	24			
Total Revenue Receipts	4,358	4,431	Total Revenue Payments	4,124	4,401
			Surplus	234	30
	4,358	4,431		4,358	4,431

LOANS AND OTHER NON-REVENUE ITEMS

Receipts	1953-54	1954-55	Payments	1953-54	1954-55
Sundry Loans (Principal)*	29	16	Sinking Funds*	35	36
Miscellaneous*	89	215	Export Guarantees	—	4
Export Guarantees—Repayments	3	4	Excess Profits Tax Refunds	7	3
Local Authorities—Repayments	21	25	War Damage	72	28
Raw Cotton Commission—Net Repayments	42	25	Capital and Loan, etc., Items in Supply Expenditure*	191	202
Coal Nationalisation—Repayments	5	5	Change in trading stocks, etc.*	—13	—18
Film Corporation—Repayments	1	1	Stockpiling of Strategic Reserves*	41	43
Anglo-Turkish Armaments Credit—Repayments	1	1	Scottish Special Housing	9	8
Other repayments	1	1	Armed Forces—Housing	—	10
			Loans to Local Authorities	299	300
			Loans to Northern Ireland Exchequer	3	1
			Loans for New Towns Development	30	36
			Loans to Film Corporation	1	1
			Loans for Development of Inventions	1	—
			Town and Country Planning—Issues to Central Land Board	1	—
			Coal Nationalisation—Working Capital, etc.	41	59
			Overseas Resources—Colonial Development	5	7
Total Non-Revenue Receipts	192	293	Total Non-Revenue Payments	723	720
Excess of Non-Revenue Payments over Receipts	531	427			
	723	720		723	720
Total Receipts	4,550	4,724	Total Payments	4,847	5,121

"Overall" Deficit 1953-54 £297 million. "True Revenue" Surplus 1953-54 £234 million. "Above-the-line" Surplus 1953-54 £94 million.

"Overall" Deficit 1954-55 £397 million. "True Revenue" Surplus 1954-55 £30 million. "Above-the-line" Surplus 1954-55 £10 million.

* These items are shown in the "above-the-line" account in the old conventional accounts.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

INCOME TAX

Machinery and plant—Sale by partnership to private company over which sellers had control—Transfer at open market price—Market price largely in excess of "limit of recharge"—Whether limit of recharge applicable—Income Tax Act, 1945, Section 59.

C.I.R. v. Wilsons (Dunblane) Ltd. (House of Lords, January 25, 1954, T.R. 5) was the subject of an extended note in our issue of November, 1952, at page 374. The facts of the case were that in 1944 Mr. A. B. Wilson, after carrying on the business of wool-spinning for many years, took his two sons into partnership and brought into the business the whole assets at the book figures. The machinery and plant stood in the balance sheet at the written-down value of £8,000. In November, 1945, the partners formed the respondent company, all the shares being allotted to the partners. The machinery and plant were bought by the company for £17,554, a sum which the Special Commissioners had found to be the open market price. The issue was whether allowances for wear and tear from 1946 onwards should be calculated upon £8,000 —the limit of recharge under Section 59 of the Income Tax Act, 1945—as contended by the Revenue or upon £17,554; and was dependent upon the interpretation of the Section. The Special Commissioners had decided against the respondent company, but the Court of Session had reversed their decision, and a unanimous House of Lords found the latter to be right. The following passage from the speech of Lord Reid would seem to sum up their lordships' attitude:

> . . . the result of the respondent's interpretation does not seem to me to be absurd or wholly inexplicable. When buyer and seller are at arm's length, the purchase price which they agree to stands as the basis for allowances and that purchase price will normally be the market price. When buyer and seller are not at arm's length, the sale is suspect, and Section 59 rejects the agreed purchase price, perhaps because it is likely to be different from the market price. If that is so, it would not be altogether unreasonable to say that, although the sale is of the suspect class, yet if it is in fact made at the market price, it shall be treated as a genuine sale . . . we are not concerned with intention except in so far as it can be deduced from the words of the Act.

As pointed out in the original note, with the law as at present there are other ways of achieving a similar result and so obtaining allowances upon a basis representing substantially replacement cost less the proportion attributable to use.

Schedule E—Expenses—Full-time consultant to hospital board—(1) Cost of telephone—(2) Wages and keep of maid—(3) Subscription to medical defence union—Whether deductible—(4) Motor-car (a) Initial allowance (b) Annual allowance—Income Tax Act, 1918, Schedule D, Cases I and II, Rule 6; Schedule E, Rule 9—Finance Act, 1949, Schedule VI, Part II, paras. 2, 4.

Hamerton v. Overy (Ch. February 17, 1954, T.R. 61) was the case of a full-time consultant anæsthetist employed by the South-Eastern Metropolitan Regional Hospital Board who, like others similarly engaged, had found that one of the consequences of coming within the ambit of Schedule E instead of Schedule D was that the test of admissibility of deductions was no longer whether they represented money "wholly and exclusively laid out or expended for the purposes of the profession" but whether they came within Rule 9 as incurred or defrayed:

> Wholly, exclusively and necessarily *in* the performance of his duties.

The judgment of Wynn-Parry, J., does not disclose the arguments put forward by the appellant in respect of the first three items in the heading to this note; but he rejected them all *in toto*, holding himself to be bound by *Lomax* v. *Newton* (1953, 32 A.T.C. 312; 34 T.C. 558), a case noted in our issue of November, 1953 (page 364). As regards the claims in respect of the motor-car under Rule 6 of Cases I and II of Schedule D, these, he said, had to be considered in the light of paragraphs 2 and 4 of Part II of the Sixth Schedule to the Finance Act, 1949. As the appellant was employed by a public or local authority and sums were to be payable to him by the authority which were in respect of or took account of wear and tear occasioned by use in such employment, he was entitled neither to an initial allowance nor to a deduction in respect of maintaining and running his car unless he brought himself within the proviso to each of the two paragraphs. These, in substance, apply where the sums payable in respect of use in official employment are "in respect of or take account of" part only of the wear and tear "occasioned by such use," in which event the full annual allowances are to be reduced to a "just and reasonable" extent. Apparently the appellant had offered no evidence upon the point. There is, nevertheless, one aspect of the subject which is worth mentioning. Whilst Commissioners will normally regard official scales of allowances for use of motor-cars on official duties and other expense allowances as *prima facie* adequate, in the event of this being disputed on appeal before them in any particular case the duty of determining whether or not an allowance is in fact adequate rests upon them and upon no one else and must be decided in the light of the evidence submitted.

Assessable income—Arrangement between Governments of United Kingdom and Australian Commonwealth—Compulsory acquisition by latter from wool-growers at appraised prices, and purchase by former of all wool produced in Australia save that required for manufacture in Australia—Profits on resale outside United Kingdom divisible equally between two Governments—Distribution of Australian share discretionary but from inception of scheme intention that wool-growers who had supplied shorn wool should participate in any profit—Large surplus—Act whereby profits distributable proportionately to suppliers of shorn wool—Payment to respondent—Whether receipt of an income nature?—To what period assignable?—Income Tax Assessment Act, 1936-1949, Sections 25, 26—Wool Realisation (Distribution of Profits) Act, 1948, Sections 4, 6, 7, 8, 10(3)—National Security (Wool) Regulations, 1939 (No. 108).

There are at least three classes of cases which stand out from the mass of Court decisions. The first and legally by far the most important is where, although the amount immediately involved may be small, some great principle is first established. A second is where the decision affects a considerable part of the population; whilst there is a third class which owes its distinction to the immensity of the amount of tax dependent on the result. The present case **(Australia Commissioner of Taxation v. Squatting Investment Company Ltd.** (Privy Council, January 20, 1954, T.R. 37; *The Times*, January 21, 1954)) is in the last category. According to the report in *The Times*, although the immediate issue was whether tax was payable on £22,851, it was stated that in all about £50 million in tax was involved.

The main facts are stated in the heading to this note. Although the property in the compulsorily acquired wool passed to the Australian Government and the wool-growers had no legal claim, it had from the inception of the scheme been understood that they would participate in any surplus that might eventuate, although for some reason or other, this participation was to be in

respect of shorn wool and not of skin wool, i.e. that taken from slaughtered animals. The respondents, who were continuing in business, had supplied shorn wool during the years 1939-40 to 1945-46 inclusive and became entitled under the Wool Realisation (Distribution of Profits) Act, 1948, to share in the immense surplus which had resulted from the disposal of the wool stocks compulsorily acquired, half of which surplus had enured to the Australian Government. Upon November 30, 1949, the respondent received £22,851 as its share and the issue was whether this sum (non-contractual in nature and a voluntary gift by the Commonwealth, although fulfilling " a well-founded hope or expectation on the part of the suppliers ") was to be deemed a trade receipt.

Giving the judgment of the Council, Lord Morton of Henryton, said, *inter verbos*:

> Having regard to the whole history of the matter . . . their lordships come to the conclusion that the payment must be regarded as an additional payment voluntarily made to the respondents or, if the compulsory acquisition can properly be described as a sale, a voluntary addition made by the Commonwealth to the purchase price of the wool. . . . The respondent was in business as a wool supplier at all material times, and the payment was made to it not because of any personal qualities, but because it, amongst others, supplied participating wool. The respondent supplied the wool in the course of its trade, and this further payment was made because it supplied it. In the present case the respondent was still trading when the payment was made. It was in its hands a trade receipt of an income nature.

No opinion was expressed by their lordships as to the proper description of such a payment where the payee was not trading at the date of the payment. Lord Morton said that counsel for the respondent did not contend that if assessable the payment " could be attributed to any year other than the year ending December 31, 1949," the year in which it was received. An interesting aspect of the judgment was counsel's contention for respondent that as in an earlier case the Privy Council had found that a similar payment was a " true gift " this made it not assessable and the rejection of this argument by reference to *Blakiston* v. *Cooper* (1909 A.C. 104; 5 T.C. 347)—the Easter Offerings case—and, although not specifically mentioned, the decision in *Reed* v. *Seymour* (1927, A.C. 554; 11 T.C. 625)—the cricketer's benefit case—where nonliability was found because it was held that the payment was a personal gift in recognition of personal qualities. It will, of course, be noted that had the respondent had a legal claim which the Distribution of Profits Act, 1948, only quantified the doctrine of relation back would have been applicable.

SUR-TAX

Undistributed income of private investment company—Apportionment—Ability to secure application of income or assets of company—Apportionment of whole income of company to holder of small interest—Whether apportionment valid—Whether apportionment appropriate—Finance Act, 1922, Section 21—Finance Act, 1938, Sections 38(3), (4); 40—Finance Act, 1939, Section 15.

Burlah Trust Ltd. *v.* C.I.R., Halbur Trust Ltd. *v.* C.I.R. (C.A. December 7, 1953, T.R. 429) were noted in our issue of October, 1953, at page 330. They arose out of two elaborate tax avoidance schemes by a Mr. Burston and a Mr. Halperin, joint managing directors of the Hounsditch Warehouse Co. Ltd., a company in which, between them, they held a controlling interest. For details of the scheme and of the arguments in the case reference must be made to the earlier note; but it may be stated that the two schemes were identical in nature, and it was agreed that any decision in the case of one trust would apply to the other. The Special Commissioners had apportioned the whole of the income of the Burlah Trust to Mr. Burston; but on appeal before them the apportionment had been discharged. On a rehearing by the Board of Referees the original apportionment had been restored, and the matter had come before Upjohn, J., on appeal from their decision. He had held that the Referees were not entitled to make one of their findings, and they had also in their conclusions referred to their inferences as " findings of fact." Instead, however, of deciding the case he had remitted it to the Referees for reconsideration and, further, for them to consider and state what apportionment, if any, appeared to them to be " appropriate " within Section 15(2) of Finance Act, 1939, a point which had not been dealt with by them. Both the Trust and the Crown had appealed against the reference back, the latter asking that the appeal against the order of the Referees should be dismissed. A unanimous Court dismissed both appeals and cross-appeals, Singleton, L.J. and Hobson, L.J., giving the only judgments. Birkett, L.J. entirely agreed with the former's judgment which contained an exhaustive analysis of the whole position. Whilst Hodson, L.J. also agreed with it, there was, in his judgment, a short but significant passage:

> The only question which really has given me any cause for doubt in this case is whether any useful purpose would be served in sending the matter back to the Board of Referees, because the conclusions which they have reached would not seem to me to be necessarily affected by the ground upon which they stand.

In view of the special character of the case and of its restricted importance a further extended notice would not seem to be called for at the present stage.

PROFITS TAX

Distribution—Redeemable Preference shares—Redemption—Premium on redemption in accordance with Articles—Amount applied in reducing share capital—Whether premium on redemption a distribution—Companies Act, 1929, Section 46—Finance Act, 1947, Sections 30, 35, 36.

C.I.R. *v.* Universal Grinding Wheel Co. Ltd. (Ch. November 27, 1953, T.R. 401) was noted in our issue of August last at page 264. The company, incorporated in 1935, had a fully-paid capital of £600,000 divided into 400,000 5 per cent. cumulative participating Preference shares of £1 and 400,000 Ordinary shares of 10s. each. The participation was limited to a maximum of 8 per cent. In 1947 it was decided that it would be good policy to redeem the Preference shares, which, under the Articles, could be done at a premium of 7s. per share. This premium, by virtue of Section 46 of the Companies Act, 1929, had to be provided out of profits of the company before the shares were redeemed; and there was no question but that the payment of the premium would have been a " distribution " for the purposes of the Profits Tax under Part IV of the Finance Act, 1947, but for the proviso to Section 36(1) which reads:

> Provided that no sum applied *in* repaying a loan or *in* reducing the share capital of the person carrying on the trade or business shall be treated as a distribution.

The operation had been carried out in 1947 and the issue was whether the whole of the 27s. had been applied in reducing the company's share capital, as contended upon behalf of the company, or whether only 20s. had been so applied, leaving the premium of 7s. as a " distribution," as contended upon behalf of the Crown. The Special Commissioners and Upjohn, J., had found that the whole 27s. was covered by the proviso and the Court of Appeal by a majority, Hodson, L.J., dissenting, upheld the latter's decision. Leave to apply to the House of Lords was granted.

Singleton, L.J., said it was agreed on both sides that the question was one of the amount " applied " to reduce the company's capital and, in the absence of a provision that the relief given by the proviso to Section 36(1) was to be restricted to the nominal amount of the share capital repaid, he had difficulty in accepting the Crown's submission, especially in view of the reference to Section 35 to the nominal amount of the capital. (In the latter

Section it is expressly provided that in the case of the last chargeable accounting period of a body corporate the distributions to be treated as distributions of capital are not to exceed the total nominal amounts of paid-up share capital together with any cash premium on issue.) Birkett, L.J., in his judgment subjected the problem to closer analysis. He stressed the fact that in order to redeem the Preference shares the company *had to pay* 27s. per share, and rejected the argument that this sum could be split up because of the use of the word " applied " instead of " paid." If there was any distinction it must be that 20s. was " applied " and 7s. " paid " ; but if 27s. had to be paid to get rid of a 20s. share then 27s. was " applied " for the purpose. He saw no particular virtue in the word " in " in the proviso and did not think it impliedly meant nominal capital. He also rejected the Crown's argument that the operation was not one for reducing capital but for redemption of the shares, considering the two to be really indivisible inasmuch as by the redemption the capital was in fact reduced.

Hodson, L.J., in his dissenting judgment, rejected the company's contention that the redemption of Preference shares was equivalent to the reduction of capital or, alternatively, was a way of reducing capital. He emphasised as important the Crown's argument based on the word " in " in the proviso and said " as a matter of arithmetic " that 20s. was the maximum amount which could be applied in reducing £1 of share capital and that the word " reduction " was not synonymous with " redemption." He also held that the word " sum " in the proviso could not be read as equivalent to " the cost of redemption " which would include the incidental costs of the operation. The 7s. was, in his opinion, not reduction of capital but a reduction of the reserve of profits or of the profits carried forward. As regards the contrast between the wording of Section 35 and the proviso to Section 36(1), he considered that if the word " nominal " had been included in the latter before the words " share capital " the same arguments would have been open to the company.

The ultimate result would appear to be by no means certain. It would seem, however, that a third view was feasible, namely that the proviso could be read as necessitating for its application that the *object* of the operation must be a reduction of capital. Upon this reading, no part of the 27s. would be other than a distribution, the reduction in question being only incidental and a matter of temporary necessity, the fact being that to carry out the operation the company's capital had had to be increased to enable it to make a new issue of £400,000 in £1 Preference shares.

ESTATE DUTY

Disposition inter vivos *by way of settlement—Transfer of £5,000 to trustees—Sum or investments representing the same to be held for trust purposes—Investment in shares of company controlled by settlor—Death of settlor within five years—Whether property taken under disposition to be valued as at date of death, £5,000 or the trust fund constituted by the deed of trust as existing at the date of death—Customs and Inland Revenue Act, 1881, Sections 38(2), 39—Customs and Inland Revenue Act, 1889, Section 11(1)—Finance Act, 1894, Sections 1, 2(1)(c), 7(5), 22(1)—Finance (1909-10) Act, 1910, Section 59(1)—Finance Act, 1940, Section 55—Finance Act, 1946, Section 47.*

Hetherington's Trustees (Sneddon) v. Lord Advocate (House of Lords, January 25, 1954, T.R. 15) was noted in our issue of January, 1953, at page 23. It arose out of a settlement made by the deceased on December 19, 1946, in favour of a daughter. The deceased died in 1948. The trustees, of whom deceased was one, were given the sum of £5,000, and the trust fund was declared to be that sum or investments representing it. They were given wide powers of investment, and in particular, were authorised to invest in companies in which the settlor was interested, including Creamola (England) Ltd., a company in which the settlor had a controlling interest. On December 21, 1946, two days after the execution of the deed, the trust's solicitors applied for and were allotted 5,000 new shares of £1 of the said company at par. This was the sole investment of the trust, and the issue in the case was whether duty was payable on the original £5,000 or upon £9,250, the agreed value of the shares at the date of death. These were still held and constituted the sole trust property. By a majority, Lord Mackay dissenting, the Court of Session had held that duty was payable not on the £5,000 but upon the value of the trust fund as existing at the date of death, so agreeing with the decision of the Court of Appeal in *In re Paynes' Declaration* (1940, 1 Ch. 576; 19 A.T.C. 370), whereby gifts by way of settlement were distinguished from immediate out-and-out gifts to donees. As regards the latter class of case, in *Lord Strathcona* v. *C.I.R.* (1929, S.C. 800; 8 A.T.C. 410), approved by the Privy Council in *Attorney-General for Ontario* v. *National Trust Co. Ltd.* (1931, A.C. 818), it had been held that what had to be valued was what had actually been given and it was the market value at the date of death which had to be taken irrespective of whether the donees had parted with it or not. In the House of Lords, the decision of the Court of Session was reversed by a majority, Lord Keith dissenting, the *Strathcona* decision being applied. The crucial question was held to be as to what was the " property taken " under Section 2(1)(c) of the Finance Act, 1894, and this was held to be what had been taken from the donor, viz. £5,000, *Payne's* case being overruled.

Each of their lordships gave a closely-reasoned argument upon a problem which is in some cases recognised to be insoluble under the existing law and which has been characterised by great differences of judicial opinion not only as regards conclusions but, even when in agreement, on how those conclusions should be arrived at. Lord Morton, towards the close of his speech, made the following observations *obiter:*

> In my view, however, these difficulties arise, in the case, for instance, of the gift of a racehorse, by reason of the wording of the relevant statutory provisions. It is perhaps surprising that gifts *inter vivos* should be valued as at the death of the donor and not as at the date of the gifts. The latter value represents that which was withdrawn from the donor's estate. . . . Further, if the latter value were taken for the purposes of estate duty the donee would know that he would be taxed on that value and no more . . . and he could make provision for that event. As matters stand . . . the donee may receive a gift . . . worth £5,000, sell the property for £5,000 and four and a half years later be charged with duty on a much larger sum if the subject matter of the gift has appreciated in value in the meantime.

Although it would seem doubtful whether Lord Morton's suggestion would of itself go far to remove the defects of the present law regarding gifts *inter vivos*, the subject is of sufficient importance to deserve serious consideration. Amongst the possibilities, the Revenue, at its discretion to avoid abuse, might be authorised to accept offers to compound for possible duty. Many a donor would like to make his gifts duty-free and in the case of a wealthy man his sur-tax position might be used as a basis for compounding. There are, however, many features of estate duty which would undoubtedly receive more attention if death duties, like the income tax, were an annual burden. As it is, except in the matter of rates of duty, there is little public interest in the subject.

Valuation of estate—Allowance for debts and incumbrances—Annuity under deed of separation made by testator—Basis on which annuity to be valued—Finance Act, 1894, Section 7—Administration of Justice (Miscellaneous Provisions) Act, 1933, Section 3.

Wolsey's Executors (Westminster Bank Ltd.) v. C I.R. (Ch. January 15, 1954, T.R. 1) involved a simple point of general importance. It involved an annuity; but it was not an annuity bequeathed under a will or arising under a settlement. In February, 1926, the testator and his wife

executed a separation deed under which the latter was to receive an annuity of £750 a year and a further £100 a year to cover rent of a house, etc. The value of the testator's estate was about £71,000 and the question was what deduction fell to be made for estate duty in respect of the £850 a year and, as Harman, J., said in his judgment, the annuitant being a creditor or potential creditor of the estate, it followed that the provisions made in the will and any other provisions regarding the annuity were irrelevant. £11,819 had been included as the liability in the Inland Revenue affidavit but had been amended to £11,416 when the widow's exact age became known; these figures being based on the yield upon Consols at the date of death and the appropriate table in *The Mortality of Annuitants, 1900-1920.* The Revenue, upon the other hand, contended for a valuation based on the average rate of yield on trustee securities and the Registrar-General's table of mortality for the whole country, making the liability to be £9,750; but a compromise offer had been made of £10,030. Harman, J., said that as there was no right in anybody to force a lump sum on the annuitant a good practical way was to assume that all the beneficiaries under the will wished to wind up the estate and get the annuitant out of the way. If they went to the Court, everyone except the annuitant desiring to get the estate wound up at once, the Court might well say "Give the annuitant the best security she can have for her annuity and then she cannot have any cause for complaint." On that basis the deduction, he said, was the cost of buying a Government annuity at the relevant date.

In the judgment it is not stated what would have been the cost of such an annuity; but, seeing that Government annuities are based on the price of Consols, the contention that *The Mortality of Annuitants* table should be applied for the calculation was apparently unreasonable if it gave a figure higher than that at which a Government annuity could actually have been purchased. The old slogan, "Buy an annuity and live longer," contained, no doubt, an element of truth but would seem to be irrelevant in the circumstances.

Tax Cases—Advance Notes

By H. MAJOR ALLEN

Queen's Bench Division

(Lord Goddard, C.J., Cassels and Byrne, J.J.)

R. v. Board of Referees. *ex parte* Calor Gas (Distributing) Co. Ltd. February 1, 1954.

Facts.—The company was the principal one in a group carrying on the business of distributing cylinders of liquified gas. During the war it was unable to maintain its cylinders in a proper state of repair. On December 21, 1948, a new holding company was formed and acquired all the shares in the company and its subsidiaries. A claim was submitted under Section 37(1) of the Finance Act, 1946, for relief from E.P.T. in respect of terminal expenses, namely, deferred repairs to the gas cylinders. The Commissioners allowed the claim in full in respect of deferred repairs executed up to December 21, 1948, but took the view that there had been a change of identity of the group of companies on that date and, under Section 39(4) Finance Act, 1946, allowed a part only of the expenditure incurred thereafter. The allowance was calculated by reference to the degree to which the former shareholders of the company appeared to have been interested at the date at which the repairs were carried out. The company appealed against the latter part of the decision of the Commissioners. The Board of Referees accepted the submission of the Commissioners that the Board had no jurisdiction to hear the appeal, relief under Section 39(4) being at the discretion of the Commissioners. The Company applied for an order of *mandamus* directing the Board of Referees to hear and determine their appeal.

Decision.—The Divisional Court unanimously held that the appeal provisions contained in paragraph 5 of Schedule 9 of the Finance Act, 1946, applied only to relief which could be claimed as a matter of right, and not to relief which was to be granted at the discretion of the Commissioners. The company's application was accordingly dismissed.

Chancery Division (Wynn-Parry, J.)

Tait v. Smith. March 10, 1954.

Facts.—The respondent was a member of the honorary staff of a voluntary hospital. Under a scheme devised in 1937 to give recognition to the professional services of the honorary medical staff, the hospital took out a life assurance policy on his life and paid the premiums thereon, it being agreed that in the event of the hospital ceasing to be a voluntary hospital the policy should become the sole property of the respondent. In 1946, as a result of the introduction of the National Health Service, a contract of service was offered to the respondent at an adequate salary and it was agreed that no further premiums should be paid on the life policy by the hospital and that it should be assigned to the respondent. In fact the policy was formally assigned on May 19, 1948, the respondent having paid the premiums falling due between December 31, 1946, and that date. The respondent being assessed to tax in respect of the surrender value of the policy, appealed to the Commissioners who decided that value was not assessable to tax. The Crown appealed.

Decision.—The assessment appealed against was in respect of the year 1949-50. Wynn-Parry, J. held that the respondent had become absolutely entitled in equity to the benefit of the policy before December 31, 1946, and that whether or not the surrender value was assessable, it followed that it could not be assessed in respect of the year 1949-50. Crown's appeal dismissed.

Lewin v. Aller. March 12, 1954.

Facts.—The respondent, an accountant, paid building society interest and bank interest. He claimed that the earned income relief to which he was entitled in respect of his professional earnings should be calculated upon the gross amount of those earnings before deducting the interest in question.

Decision.—Wynn-Parry, J. held that the matter was concluded by the case of *Adams* v. *Musker* (15 T.C., page 413). Earned income relief could not be given on a greater sum than that on which the taxpayer was effectively charged to tax.

Patrick v. Burrows. March 3, 1954.

Facts.—A director of a company settled a block of shares upon trust for such of the company's employees as the directors of the company should from time to time at their discretion direct. There was a proviso that the whole of the shares were to be distributed and transferred to employees of the company within a period ending 21 years after the death of the settlor. The declared intention of the settlement was "that the said shares shall be available for distribution among any of the employees of the company to whom the directors . . . deem it expedient to give an interest . . . as shareholders in the company in consideration for past or future services and with a view to promote the prosperity of the company." An assessment was raised upon an employee of the company on the value of 250 shares received by him from the trustees of the settlement. The Commissioners held that the shares were a bounty from the settlor, and not from the company, and did not constitute an emolument of the respondent's office.

Decision.—Held, that the receipt of the shares was linked with the employment of the respondent and that he was assessable to tax under Schedule E accordingly. *Calvert* v. *Wainwright* (27 T.C. 475) followed.

The Student's Tax Columns

DEDUCTION AT SOURCE—II *

THE PRINCIPLES OF DEDUCTION AT SOURCE CANNOT BE TOO well learned, and examiners complain that students often fail to apply the rules.

It is well to look at income in the first place, rather than the person to whom it belongs. The rules of assessment apply to the source of the income and measure the income according to which Schedule applies to the source. The income tax on all sources must be paid, irrespective of whether there is an obligation to pay some of the income over to others in the form of interest, ground rent, etc. Some income does not require assessment as it has already borne tax in the hands of the person from whom it is received, and he has deducted the tax when paying over the income.

All income which a person has is therefore "brought into charge to tax," either by direct assessment on him, or by deduction at source. He is not allowed to reduce his income by any amount he pays to anyone else by way of interest on loans, patent royalties, ground rent, or any other annual payment (or annual charge, as such payments are commonly called). Bank interest is an exception, not being regarded as "annual"; another exception is building society interest because of a special arrangement laid down for it. These two items are deductible from income; if all income has been charged to tax, tax on these two is reclaimed from the Revenue. From any annual payment paid out of income brought into charge to tax, the payer is entitled by Section 169 to deduct and keep tax at the standard rate in force when the payment became due. This puts him in the position of bearing tax only on the income he keeps for himself.

* The first article on this subject appeared in our March issue on page 109.

Illustration: A limited company has profits assessed for 1954-55 as follows:

			Tax paid
Trade	£2,000		
Less Capital Allowances	300		
	1,700	Sch. D, Case I	£765
N.A.V. of premises owned	400	Sch. A	180
Dividends received	100	By deduction	45
Income brought into charge to tax	2,200		990
The company pays debenture interest from which it deducts and keeps tax	600		270
Leaving income enjoyed	£1,600	and tax borne thereon	£720

This system does much to prevent evasion by persons receiving annual payments.

What, however, is the position if there is not enough income brought into charge to tax to cover the annual payment? In that event, tax must be deducted from the excess of the annual payment over the income brought into charge to tax, and accounted for to the Revenue under Section 170.

Illustration: Company 1954-55.

			Tax
Case I	£300 at 9/-		£135
N.A.V.	200 at 9/-		90
Dividends Received	100 at 9/-		45
Income brought into charge to tax	600		270
It pays debenture interest	1,000	and deducts	450
Annual payment not out of income brought into charge to tax	£400	**Tax** thereon assessed Sec. 170	£180

The Crown thus gets the whole tax deducted, part (£270) in the income brought into charge to tax (Section 169) and the balance (£180) by direct assessment under Section 170.

In the case of individuals, personal reliefs cannot be given against income required to meet annual payments. This is essential to make sure that the tax deducted has been accounted for to the Revenue:

Illustration: 1954-55. An individual's income, out of which he pays loan interest of £220, is as follows:

N.A.V.			£100
Wife's Schedule E	£630		
Business Income Sch. D (Case II)	1,350		
	1,980		
Less N.I.C.	15		
		1,965	
			£2,065

The loan interest is covered by the Schedule A N.A.V. to the extent of £100, less the National Insurance Contribution (N.I.C.) £15 = £85. The balance (£135) is paid out of earned income. Accordingly, earned income relief is given only on £630 + £1,350—£135 = £1,845, not on £1,980. Were this restriction not there, the taxpayer would be "in pocket" to the extent of 2/9ths of the tax on the £135.

Illustration: 1954-55. An individual paying mortgage interest of £200 had a poor year, and his income was:

N.A.V.	£105
Business	45
	£150

He can have no reliefs, as he has no income left! He will therefore pay on the £150 at 9/- = £67 10s. and be assessed under Section 170 on £50 at 9/- = £22 10s., thus accounting for the whole £90 tax he deducts from the mortgage interest.

Illustration: 1954-55. Individual paying interest and ground rent totalling £200.

His income is—

N.A.V.	£80
Business	320
Dividends	50
	450
Less N.I.C.	15
	435
E.I.R. 2/9ths of £235	53
	382
Personal Relief (Married) restricted to	182
Leaving in charge	£200 at 9/- = £90.

Of this the dividend has "taken care" of £22 10s., leaving the rest to be collected—Sch. A. £36, Case I £31 10s.

Had his business income been £620:

Total brought into charge			£735
E.I.R. 2/9ths of £535		£119	
Personal Allowance		210	
Child		85	
			414
			£321
			Tax
There must be kept in charge at 9/- £200			£90 0 0
Leaving for reduced rates	£100 at 2/6		12 10 0
	12 at 5/-		5 5 0
Tax to be paid			£107 15 0
Paid thus: Sch. A.	£36 0 0		
Dividend (deducted at source)	22 10 0		
Business	49 5 0		
	£107 15 0		

The business assessment would read:

Profits		£620	—
Less N.I.C.	£15		
Reliefs as above	414		
		429	
		£191	
£100 at 2/6			£12 10 0
21 at 5/-			5 5 0
*70 at 9/-			31 10 0
			£49 5 0

* Kept in charge:	Sch. A.	£80
	Dividend	50
	Sch. D.	70
		£200 at 9/- = £90

The tax borne is on the income enjoyed, thus:

Total income	£735	
Less Annual payments	200	
Income enjoyed	535	
Reliefs	414	
	£121	
£100 at 2/6		£12 10 0
21 at 5/-		5 5 0
		£17 15 0
Tax paid	£107 15 0	
Tax recouped	90 0 0	
Tax borne	£17 15 0	

In the case of dividends payable, a company deducts tax at the standard rate and keeps it in all cases. If it does not deduct tax, it is regarded as having paid a gross sum which, less tax at the standard rate, would give the sum paid.

We shall discuss this in another article.

(Concluded)

The Month in the City

Encouraging Investment

For the stock market the event of April must usually be the Budget provisions and this is scarcely less true on this occasion, when the Chancellor has brought in a carry-on Budget. One would have supposed, from the talk heard in advance and from the fact that industrial equities "went through the post-war roof" on the Friday before Budget day, that the investor believed that Mr. Butler was about to institute most if not all of the very numerous reliefs for which almost every representative body had asked. In fact it was reasonably evident that, on mere arithmetic, he would have little or nothing to give away unless he was prepared to face a substantial above-the-line deficit—and the Economic Survey made it clear that the authorities saw no reason to apply any stimulus except to domestic investment by private enterprise. In the event, Mr. Butler's principal measure, "investment allowances," which will cost him little or nothing for two years, is designed solely for that end and should be a bull point for equities in well-run companies installing or producing capital equipment. It will not escape the attention of the observant that the well-run concern manufacturing capital equipment is likely to benefit under both heads. The only other measure of substance within the Budget proper—estate duty relief to those in control of private companies—will also stimulate demand for capital goods in some degree; while outside the Budget, the further extension of the time limit for advances against Export Credit Guarantee Department guarantees and the facilities for mobilising credit without recourse to the exporter should have somewhat similar effects for those engaged in the export industries.

Freeing Sterling and Gold

Towards the end of March the authorities had taken two further steps towards freeing markets which were calculated to instil confidence in sterling and therefore, perhaps, in the future of the economy. These were the decisions to make all sterling balances, whether on current or capital account, held outside the sterling and dollar areas, freely transferable outside those areas and to reopen a free gold market in London. As in the case of other commodities there were to be limits on the operation of this new "freedom": these are inevitable until such time as convertibility into dollars becomes permissible. In effect, gold could only be bought in London for dollars or for a new registered sterling which, in turn, could only be acquired by the surrender of something considered equivalent to dollars. The reopening of the gold market seems to have met with a considerable degree of success. Turnover has probably not been really large and the premium element, after allowing for costs in transmitting to the U.S.A., has been slight. More important, prices have fluctuated narrowly and the margin between buying and selling prices has been such as to suggest that, other things being equal, most people will prefer to use London rather than other centres. The greater exchange freedom is regarded as being largely the acknowledgment of a *fait accompli*. It probably gains us a little goodwill, and it certainly saves exporters and/or their bankers a considerable amount of work. It has been followed by a slight and general improvement in the value of official sterling on most exchange markets and by a closer approximation between official rates and those for this now generalised type of transferable sterling.

Buoyant Markets

It is difficult to say that these two developments have had any appreciable effect on either stock or money market. Added to the general expectation of maintained, if not increased, demand in all sectors of the home economy and to the good figures of exports and of additions to the gold reserve for March, they have probably helped to produce a general feeling of confidence, which has also been assisted by a number of good company statements and by British and American views that the recession in the United States is not likely to be severe. The absence of any clear indication of lower interest rates in the Budget, plus the fact that a revival in investment might mean more demands on the savings of the people, may be responsible for the very slight and strictly temporary reaction in fixed interest securities after Budget day—a reaction quickly followed by a sharp rise—but they caused no halt at all in the rise in industrial equities. Between March 19 and April 20 the indices of the *Financial Times* show the following changes: Government securities, from 101·44 to 102·50; fixed interest from 112·36 to 113·34; industrial Ordinary from 137·1 to 144·9 and gold mines from 95·23 to 87·68, the percentage fall in the index for developing gold mines being of the same order of magnitude.

New Issues

The response to the offer of £30 million of loan stock by *Imperial Chemical Industries* was as great as expected, exceeding ten times that figure, although the number of applications was surprisingly low. Those who applied for more than £1 million got 8½ per cent., but the general basis was 10 per cent. with a minimum allotment of £50 to everyone. Since then there have been three small issues under the *Whitehead Trust*, all of which were oversubscribed, as were offers by *Ceylon* and the *East Africa High Commission*, the former of £5 million 20-year stock carrying 4 per cent. and offered at 97, and the latter of a small amount of similar stock with a slightly shorter life and offered at 97¾. There were also a number of small placings. The total involved in all these is modest compared with the I.C.I. operation, but it is evident that there is still money awaiting investment at prices considered fair.

Anglo-Iranian Progress

The group of oil companies which have been attempting to reach agreement on the marketing of Persian oil have now got so far as to be able to send representatives to talk with the Persian Government. It has been agreed that *Anglo-Iranian Oil Company* shall have 40 per cent. in the new consortium, each of five American companies 8 per cent., *Shell*, which is short of Middle-East oil, 14 per cent. and the French company 6 per cent. Each of these companies will pay A.I.O.C. for its share. What is actually being bought appears to be the right to trade, together, possibly, with the right to use assets in Persia—some of which will be ex-A.I.O.C. property—when an agreement has been reached with the Persian Government. How long that will take and whether satisfactory compensation will be offered to the A.I.O.C. remains to be seen, but the length of time needed to secure agreement among the oil companies on the split up in handling the oil, when it comes, and on the amount of compensation to be paid is scarcely a good augury for a speedy settlement in Teheran.

Points From Published Accounts

A Qualified Certificate

The auditors of *Hide & Co. Ltd.*, include the following statement in their report:

> We report that in regard to the transactions referred to in note 6 and the capital commitments and contingent liabilities in note 14, we have not been able to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In consequence, we are unable to state whether in these respects the balance sheet and the said notes give the information required by the Companies Act, 1948, in the manner so required or give a true and fair view of the state of the company's affairs in regard thereto."

The first footnote concerns complicated purchases of controlling interests in two concerns, which were partly satisfied by the issue of the parent's share capital owned mainly within the group, these shares being resold concurrently by the vendors to third parties. The directors report that the shares were subsequently purchased by the chairman, and they "felt that it was appropriate and in the best interests of the company that he should have this substantial stake in its future."

The second footnote states: "There were outstanding capital commitments not provided for in the balance sheet at January 31, 1953, estimated at £23,000. In addition, the company had entered into contracts to acquire . . . for a total consideration not exceeding £253,752. There are contingent liabilities of a capital nature, the amount of which is unascertainable, but of which in the directors' opinion no appreciable amounts are likely to materialise."

Neither the directors' report nor the chairman's speech throws light on the reasons behind the auditors' qualification.

Bowmaker, Limited

At the end of the third paragraph of our note on *Bowmaker Limited*, in our last issue (page 151) there was a criticism of Bowmaker's accounts on the ground that it was not clear to what extent the "profits retained by the subsidiaries" were freely distributable. This criticism of Bowmaker was unjustified. In the accounts the allocation of the unappropriated profits of the subsidiaries is shown quite clearly, and we apologise for any misleading impressions which may have resulted from our comments.

In our note we commented that in Bowmaker's accounts the prime trading profit was not shown but, instead, the account began with a profit for the year before tax and a panel showed the items which had been deducted and added before arriving at the figure. We did not intend this comment to be read as critical of Bowmaker, Ltd., in particular, for it is a common practice for companies to adopt the procedure mentioned.

Tax Relief Brought Forward

Southalls (Birmingham) emerged from the "red" in 1953, and the tax debit is low in relation to profits. To prevent shareholders harbouring wrong ideas about the dividend cover, the directors report: "It is estimated that the taxation chargeable for the year would have been about £41,000 more if there had not been a loss brought forward for taxation purposes from the previous year." This is valuable information, and it behoves all companies that have struck a lean patch to state precisely what is the tax relief that can be carried forward against future profits. Recently we have examined a merger of two companies: although one of them carried forward a debit at profit and loss of over £250,000 not a word was said about the worth of this sum in terms of future tax relief.

Publications

TIME COUNTS.—THE STORY OF THE CALENDAR. By Harold Watkins. Pp. 268. (*Neville Spearman, Ltd., London. Price 15s. net.*)

"After 370 years," writes our author, "the Gregorian Calendar is out of date!" Science, as he points out, has evolved methods of measurement accurate to tiny fractions of a second. Only the year still suffers from antiquated calculations and divisions.

Mr. Watkins, a member of the *British Advisory Council of the World Calendar Association*, ably puts the case for certain reforms which he considers necessary. With such formidable personages as the Astronomer-Royal on his side we are bound to listen with respect.

The trend of modern thought on the calendar may be gleaned from a resolution of the International Chambers of Commerce in favour of a "perpetual," or fixed calendar. This resolution was passed as long ago as 1921, and shortly afterwards the International Astronomical Union suggested four fundamental points: (1) that the festival of Easter should be stabilised; (2) that a perpetual calendar, consisting of 52 weeks plus one or two blank days, should be adopted; (3) that January 1 should take the place of the day at present occupied by December 22; and (4) that the 364 days should be divided into four periods of 91 days each, that is, periods of two months of 30 days and one month of 31 days, without excluding an auxiliary division into periods of 14 and 28 days. This more consistent calendar was found to comply with the requirements of the commercial world, but it raised opposition on religious grounds. So at that time, it was felt, nothing could be done.

But the movement went on, and some of the keener reformers, such as Elizabeth Achelis, devoted time and fortune to the subject. It was this lady, an American, who put forward the idea of a World Calendar —one divided into 12 months and equal quarters, and possessed of the desirable quality that it remained valid year after year, and quarter after quarter. She did not claim this World Calendar to be a new "invention," but advanced it as a synthesis of numerous other proposals. Certainly one can say that its adoption would be not too disruptive of established usage.

Though advocacy of the World Calendar forms the propagandist crux of *Time Counts* one must add that as a "story of the calendar" from the earliest times, Mr. Watkins's book leaves little to be desired—at least so far as the general reader is concerned. Much in its pages will be of considerable interest to accountants. R. R.

STATISTICS FOR THE COST ACCOUNTANT. By J. A. Reece, B.SC. (ECON.), F.C.W.A., F.I.S. Pp. 40. (*Gee and Co. (Publishers), Ltd. Price 5s. net.*)

This booklet of forty pages is the first in a series of occasional papers projected by the Institute of Cost and Works Accountants. It aims to give qualified accountants and students an understanding of statistical techniques, and thus an appreciation of the extensive applications of simple statistics to management and production problems.

Mr. Reece has not attempted to write a

text-book or to cover all the applications of statistics which might be useful to the cost accountant. He is at pains to emphasise that statistics is neither a substitute for clear thinking nor a panacea for all management problems: it is merely a tool, which may be used wisely or badly.

Members of the profession who study the booklet will find brief summaries of a number of statistical methods, including averages and measures of dispersion, time series, index numbers, quality control and a little on correlation. A feature is the frequent references to official statistics, the scope and usefulness of which is far too seldom appreciated in business.

Mr. Reece has considerable facility at exposition and generally knows what to leave out and what to emphasise in so brief a space. Nevertheless, the need for compression has occasionally lowered the level of exposition. For example, some lay readers will not grasp the derivation of the inner and outer limits on the control chart as they are explained in the text and in the section on index numbers a few additional sentences on weighting would have been disproportionately helpful. However, despite such minor criticisms the booklet deserves a warm welcome: if the future papers in this series are as well prepared the Institute of Cost and Works Accountants will be doing the profession a valuable service. A. R. I.

THE LAW AND PRACTICE RELATING TO EXEMPT PRIVATE COMPANIES. By A. J. Balcombe, M.A., Barrister-at-Law. Pp. xiii × 147. (*Jordan & Sons Ltd., London. Price 15s. net.*)

The latest annual report by the Board of Trade shows that of the 251,015 private companies which were on the registers in Great Britain at December 31, 1952, 184,452 (or 73·5 per cent.) were exempt private companies. These figures show the importance of the subject of this book. They also show that the reader of any book on private companies as a whole is entitled to expect it to treat fully of the exempt companies. But while there may be doubts whether a separate book on this subject is really necessary—and even in these days of high publishing costs 15s. does seem a high price to pay for a work containing only 95 pages of text—there is no doubt that the author has executed his task lucidly and thoroughly. This is not just another dreary commentary on an Act; it bears evidence of a fresh mind and independent thought applied to an intricate subject.

It would have been better, as Mr. Balcombe says (page 9) if there had been included in the Companies Act a Section defining an exempt private company, in the same way as Section 28 defines a private company. This course was not adopted, and the statutory description of an exempt private company has been skilfully analysed in this book in a series of chapters on the qualifying conditions of such a company, the two basic conditions, and the exceptions to the basic conditions. The Act and the text are made easier to follow by the insertion of examples. There is a careful analysis of the scope of the "exceptions for normal dealings of a business nature" in which the author gives his own view (which seems sound) on the proper interpretation to be given to these provisions, drawing on the general principles of statutory interpretation. The discussion of the meaning of "settlement" in the 7th Schedule, para. 3 (2) (f), is particularly illuminating. More text-books might well follow the example of this one in making judicious reference to articles in accountancy and secretarial journals. W. H. D. W.

THE FINANCE OF LAND OWNERSHIP. By W. Walker-Watson. Pp. x × 246. (*Frederick Warne & Co., Ltd., London. Price 21s. net*).

This very readable book on the financial problems facing landowners should be read by all who have to solve them.

The book starts with an analysis of the economics of owning land whether inherited or purchased. It is admitted frankly that the return on capital invested in agricultural land is a good deal less than can be obtained elsewhere, but it seems to be a national characteristic that those who make money in other spheres eventually return to the land, which has an attraction which compensates for the low return obtained.

Accountants will find much to interest them in the chapters devoted to the books and records, and in those on taxation. As the author points out, very high taxation has the corollary of providing a substantial bonus on expenditure chargeable for tax purposes, and he gives a summary of the reliefs available.

The book deals at length with the effect of estate duty on landed estates. The whole principle of settlements made a generation ago was to maintain the capital intact for the remainderman, but nowadays the Chancellor of the Exchequer can be the biggest remainderman of the lot, unless some action is taken to deal with him. The outlook has altered completely in recent years and the author points out the various ways in which relief can be obtained, as in the *Duke of Northumberland* case, or even by a complete variation of the settlement in appropriate cases.

The estate company which became so popular a generation ago is now rather out of favour by reason of the fact that shares in companies owning agricultural land do not obtain the 45 per cent. rebate of estate duty applicable to the land itself; there is also a liability to profits tax. These two items, together with the known and unknown hazards of the Finance Act, 1940, have reduced the popularity of such companies; in fact, as the author points out, some have been put into liquidation.

The chapters on the Town and Country Planning Acts and on historical buildings are interesting. The author concludes with a discussion on future policy. He seems rather optimistic in thinking that tax relief is likely to be given in respect of reserves set aside for future repairs, as the Income Tax Acts have always limited claims to actual expenditure. In asking for tax relief on such reserves, landowners would be competing with all other taxpayers, including industrialists, who might have similar grounds for relief, and a very wide door might be opened to evasion.

It is not generally realised what a comparatively small sum is brought in by Schedule A assessments; on page 51, Mr. Walker-Watson says that the whole of the Schedule A tax on agricultural properties amounts to well under £25 million, or less than 1 per cent. of the total taxes collected by the Inland Revenue. The comparative smallness of this figure should be emphasised by all who are endeavouring to obtain relief from the burden of tax on agricultural land. N. B. H.

We welcome the appearance of a new journal, *The South African Accountant* (*Die Suid-Afrikaanse Rekenmeester*), a copy of the first issue of which, that for March, 1954, has just reached us. The journal is the official publication of the Public Accountants' and Auditors' Board of the Union of South Africa. A number of distinguished accountants serve on the Editorial Board and the Chief Editor is Professor W. J. Fairbairn, F.S.A.A., C.A.(S.A.), Professor of Accounting and Auditing at the University of Natal. The Taxation Editor is Mr. B. E. J. Blann, A.S.A.A., C.A.(S.A.). The first issue contains three long articles: two in English, on "The History of the Profession in South Africa," by Mr. G. E. Noyce, F.S.A.A., C.A.(S.A.), and "The Auditor and the Recent Amendments to the Companies Act," by Mr. R. H. Burton, F.S.A.A., C.A.(S.A.), and one in Afrikaans. There are tax notes, comments on published accounts, legal notes, a students' section (containing an article by Professor W. J. Fairbairn, F.S.A.A., C.A.(S.A.)., on "The Preparation of Consolidated Accounts") and book reviews. The new journal promises to be a valuable addition to the periodical literature on accounting.

Readers' Points and Queries

e-acquisition Profits as Taxation

Reader's Query.—The view so succinctly pressed in ACCOUNTANCY, February, (page) has, I know, a most substantial following ong accountants, but is it necessarily the rect view?

The only support it appears to receive m paragraph 15 (5) consists of the words pearing in brackets "for that or any er purpose." It is to be noticed that this rase does not conclude with the word whatsoever," so that the application of e *ejusdem generis* rule is not excluded. herefore, the prohibition is confined to ing the pre-acquisition profits for revenue like purposes, e.g. relieving a charge or pense that would normally go to debit of e shareholders' profit and loss account.

Throughout the paragraph the profits are ferred to as those "attributable" to ares. The shareholder's income attributable to his shares consists of only one ing—dividends. It is therefore dividends ceived from the subsidiary company that e in question. In so far as a dividend is id out of pre-acquisition profits it cannot e utilised in turn by the shareholder-mpany to pay a dividend to its shareolders—except and unless they are both bsidiary companies, in which case a ividend paid by one to the other merely ansfers money from one till to another in e group. It is only where the parent or olding company pays a dividend that the oup funds are or can be released to the tside world.

It is legitimate to inquire the purpose of ragraph 15 (5). It appears merely to enact the rule of company law that are capital cannot be used to pay a ividend. It also serves the very useful rpose of doing away with all doubt and fficulties where it is clear that capital onies have not been used to acquire ofits, as instance the case of a company ith £5,000 capital and £50,000 revenue serves expending £52,000 to purchase ares in a subsidiary. But for paragraph 5 (5) the point could be put that as to /55ths the pre-acquisition profits (we sume there are some) were acquired herwise than out of share capital, and at therefore if they were used for revenue rposes no principle of company law ould be offended; but there could be any abuses.

Reply.—With respect to our reader, we think at there is nothing in his letter which lessens the gument that a company which is not an investnt company could not reasonably pay a dividend out of the profits in question. We are glad that readers are considering the point, which may assume some importance in the future.

Back Duty—Capital Allowances

Reader's Query.—When a capital or assets statement is prepared should it contain all assets, including the value of plant and machinery? If so:

1. How should the value of the plant and machinery be determined for the *first* year of the statement?

(*a*) On the basis of an inventory now taken and having regard to the purchase price, date of purchase, and estimated condition as at the commencement of the first year of the capital computation (any increase in price since purchase being ignored), or

(*b*) By taking the original purchase price and writing it down to the notional written down value as at the commencement of the first year of the capital computation, or

(*c*) By any other method.

2. Having determined the commencing value, should the annual capital allowance be deducted *after* the capital increase for each year is computed, or should it be shown as a deduction before arriving at the capital increase for the year? (Normally capital allowances are a deduction after the assessment has been computed.)

3. When a farmer, having been assessed under Schedule "B" until April 5, 1948, comes under Schedule "D" from 1949 onwards, would not method 1 (*a*) above be preferable to 1 (*b*) above? If 1 (*b*) be adopted the value of the plant and machinery would be reduced by allowances which in fact he never received. Schedule "B" assessments made no provision for capital allowances and cannot be regarded as equivalent to Schedule "D" assessments unless such notional allowances are deducted from the Schedule "B" assessments for which there is no authority and which may not be reopenable through lapse of time. In some years the Schedule "B" assessments would have been more and in other years less than the alternative Schedule "D" assessments and there is no means of bringing forward any excess of notional allowances over the Schedule "B" assessments.

Reply.—1. Method 1 (b) is probably the best, as it gives the written down value for income tax purposes. The alternative is cost price.

2. It is better to keep the assets in at their original figure as shown in 1. The capital allowances are then deducted in the assessment. The purpose is to find the increase in capital. To write off depreciation only confuses the position as it has to be put back in the reconciliation!

3. Method 1 (b) is compulsory.

Taxation of Infants

Reader's Query.—In your reply to a query on page 70 of the February issue of ACCOUNTANCY, you said "The only way a parent can escape is by settling the capital in trust so as to accumulate the income for the child's benefit until the child reaches 21 or marries."

I took this to mean that, if a parent settled say £1,000 in trust for his infant child contingent on the child reaching 21 or marrying, then the income from that £1,000, provided it was accumulated, and the income from any accumulations, would not be deemed to be that of the parent. Furthermore, should the child reach the age of 21 or marry earlier, the income would be deemed to have been his and he could make a repayment claim in the usual way.

From a reading of Sections 397 and 398 of the Income Tax Act, 1952, it would appear that the income would in fact be treated as income of the settlor. There is a loop-hole given by concession 22 of the list of Extra Statutory Concessions issued at December 31, 1949. But we understand from the local Inspector of Taxes that this refers only to income from the accumulations and not income from the gift itself.

Is the Inspector's interpretation of the concession too narrow?

Reply.—Strictly speaking, any income paid over in the year in which the child reaches 21 is caught by the Income Tax Acts, but the concession gets over this difficulty in respect of income which has been accumulated. The income for the year in which the child reaches 21 can be held up and paid to him on the April 6 following his 21st birthday. Lawyers commonly make such settlements until the child reaches 22 in case the concession is withdrawn.

It is impossible to say whether the Inspector's interpretation of the concession is too narrow or not. Presumably he is acting on his instructions. We should regard it as too narrow, and suggest that the Inspector be required to refer to his Head Office. The actual wording of the concession is: "sums which have been accumulated under such a settlement . . . are not treated as caught by the sub-Section." We can read this only as meaning all sums no matter how they arose.

The address of the Life Offices' Association is now 33 King Street, Cheapside, London, E.C.2. The telephone number is unchanged, Monarch 3861.

Legal Notes

Company Law—Valuation of Shares by Accountant.

A full report has now appeared of the important case of **Dean v. Prince** (1954, 2 W.L.R. 538) discussed in a Professional Note on page 122 of our last issue. By the articles of a private company "in the event of the death of any member his shares shall be purchased and taken by the directors at such price as is certified in writing by the auditor to be in his opinion the fair value thereof at the date of death and in so certifying the auditor shall be considered to act as an expert and not as an arbitrator and accordingly the Arbitration Act, 1889, shall not apply: unless they otherwise agree the directors shall take such shares equally between them."

The issued capital of the company consisted of 200 shares of which D held 140 and the two other directors 30 each. D died and an accountant gave a certificate that in his opinion his shares were worth £7 each. The widow was dissatisfied with this valuation and brought proceedings against the other directors alleging that the valuation was not binding on her. Before Harman J., the directors took the point that in the absence of dishonesty—and there was no suggestion whatever of that—the accountant's certificate could not be impeached even if in fact the valuation was wrong. However in a laudable attempt to achieve agreement between the widow and the directors the accountant had given the reasons for his valuation and Harman J., decided that as the reasons had been given the Court could inquire whether or not they were right: if no reasons had been given, the certificate could not have been challenged. Against this decision there was no appeal, but the directors did appeal against the learned Judge's further decision that the accountant had valued the shares on a wrong basis.

For some years prior to D's death the company had been running at a loss, and the expectation was that the losses would continue. The accountant therefore decided that the business could not be sold as a going concern and he then felt bound to adopt as the basis of his valuation the "break-up" value, that is, the amount that would be realised if the plant and machinery were dismantled and sold separately by auction and the book debts realised immediately. Harman J., thought that this basis was wrong: even if the business could not be sold as a going concern, the auditor ought to have taken into account the following factors: (*a*) the 140 shares carried a controlling interest in the company; (*b*) someone might have been found to buy the shares and use his majority holding to turn out the existing directors, reorganise the factory and put in his own business; and (*c*) the assets might have been sold as a whole *in situ*.

The Court of Appeal said that the normal way of valuing a business was to take its value as a going concern, but the auditor was right in rejecting this basis because the business was running and was likely to continue running at a loss. The 140 shares would give the holder a controlling interest, but in the absence of agreement both the existing directors would take 70 shares and that would not give either a controlling interest: in the circumstances therefore the accountant was right in valuing the whole 200 shares and then valuing the 140 shares in strict proportion. Further, no person outside the company would either buy the shares for the purpose of reorganising the company or buy the assets *in situ* unless he had some security of tenure in the premises occupied by the company, but in fact the company occupied the premises under a peculiar arrangement which would give a purchaser no security of tenure. Therefore, although the break-up value of the assets was considerably less than the book value, the Court were not satisfied that a higher price for the shares would be realised on any other basis, and the appeal by the directors was allowed.

Company Law—Insolvency—Dispositions Made After Winding-up Petition.

By Section 227 of the Companies Act, 1948, "in a winding-up by the Court any dispositions of the property of the company . . . made after the commencement of the winding-up shall, unless the Court otherwise orders, be void." In decisions on corresponding sections of earlier Acts and in particular in *Re Wiltshire Iron Co.* (3 Ch. App. 443) the Courts recognised that unless their power to give relief was exercised widely, serious damage might be done both to the company and to its creditors. As Lord Cairns said:

> Where a company actually trading which it is the interest of everyone to preserve, and ultimately to sell as a going concern, is made the object of a winding-up petition which may fail or may succeed, if it were to be supposed that transactions in the ordinary course of its current trade, *bona fide* entered into and completed, would be avoided and would not, in the discretion given to the Court, be maintained, the result would be that the presentation of a petition, groundless or well-founded, would *ipso facto* paralyse the trade of the company and great injury, without any counter-balance of advantage, would be done to those interested in the assets of the company.

In **Re T. W. Construction,** Ltd (1954, 1 W.L.R. 540) these principles were applied in favour of a bank. At the beginning of April the bank allowed a company to have a temporary overdraft of £1,000 to finance an export order, and after other requests the bank increased the overdraft to £1,200 to extend until May 12. On May 7 a petition for winding-up the company was presented. On May 9 and again on May 20 the overdraft was increased by the amount of the wages cheque and on May 21 £1,308 was paid into the credit of the account by a third party in respect of the export transaction. On May 22 the bank first learnt that a winding-up petition had been presented. In these circumstances the Court held that the bank was entitled to retain the whole of the £1,308 against the liquidator.

Executorship Law and Trusts—Revocation of Appointment.

In **Re Greaves** (1954, 2 W.L.R. 557) the Court of Appeal reversed the decision of Vaisey J., which was noted in ACCOUNTANCY for March, 1954 (page 114). The Court said that, when a person is given a power of appointment, he is not obliged to exercise the power at all. The only relevant duty that he owes is to the persons entitled to take in default of appointment, the duty not to exercise the power of divesting them save strictly to the extent and in the manner prescribed by the donor of the power. Consequently the doctrine of a fraud on the power did not apply to the revocation of an appointment any more than it did to the release of a power of appointment.

THE SOCIETY OF
Incorporated Accountants

TAKE-OVER BIDS AND GOVERNMENT EXPENDITURE

The South of England District Society of Incorporated Accountants held a dinner at the Grand Hotel, Bournemouth, on March 19. Mr. Clifford J. B. Andrews, F.S.A.A. (President of the District Society) presided, and the company of about 150 members and guests included the Mayor of Bournemouth (Councillor H. P. E. Mears, O.B.E.), the Deputy Lord Mayor of Portsmouth (Alderman A. Johnson), Mr. C. Percy Barrowcliff, F.S.A.A. (President, Society of Incorporated Accountants), the Mayor of Poole (Alderman Miss M. M. Llewellin), the Mayor of Christchurch (Councillor K. H. Ashcroft), His Honour Judge Armstrong, the Recorder of Poole (Mr. Malcolm McGougan), Mr. I. A. F. Craig, O.B.E. (Secretary, Society of Incorporated Accountants), Mr. H. Crawford, B.COM. (Head of the Department of Commerce, Bournemouth Municipal College), and many representatives of other professional bodies, the Inland Revenue, and civic life in the area.

Mr. R. A. Etheridge (Vice-President of the South of England Society) proposed the toast of "The County Borough of Bournemouth and the Boroughs of Poole and Christchurch." He observed that the treasurers of two of these three boroughs were Incorporated Accountants. Something like 10 per cent. of the membership of the Society were in Government or local government service.

The Mayor of Bournemouth (Councillor H. P. E. Mears) replied in a humorous speech.

His Honour Judge Armstrong proposed the toast of The Society of Incorporated Accountants. He said that in a booklet with which he had been furnished relating to the Society he had noticed the remarkable number of subjects with which members had to be familiar, and at first he thought it might have been intended to indicate how lucky he had been not to attempt to pursue their more lucrative profession. (Laughter). He realised, however, that the good order of the business of this country was largely in their hands.

Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants), in response, warned the company of the evils of over-taxation and its depressing effect on personal effort and saving. There appeared no doubt that our economy was in grave danger through the absence of adequate savings for industrial risk capital. The smaller businesses in the past were enabled to develop by the process of ploughing back profits and helped to give Britain her outstanding industrial position. Our present fiscal policy made this now impossible, and provided no other source from which risk capital could be obtained.

One of the serious consequences of penal taxation was the unfortunate emphasis it gave to capital profits at the expense of hard-earned real profits. Encouragement appeared to be given to acquiring and dealing with businesses as a means of making untaxable capital profits.

Businesses, with all that lay behind them in the way of workers, industrial equipment and experienced executives, were never intended to be the shuttlecock of those who commanded capital resources and whose main interest lay in exploiting businesses for capital gain. This trend, sometimes observable in "take-over" bids, was not only regrettable but was certainly in most cases against the public interest.

The source of the trouble was the mountainous scale of public expenditure. Social services were now costing an average of £1 18s. per week per head of the working population. Add £1 6s. per week for defence and £1 for other services and there was a load of £4 4s. per week. For a family of four the load worked out at about £8 per week on the average. This year defence estimates were up by about £250 million (practically the total pre-war expenditure) and would reach £1,600 million, whilst education was up by about £30 million. This ever-increasing expenditure was alarming. Could no one bring the whole spending machine under some sort of control?

Surely it was time the Government realised that economies were long overdue and that inquiry was urgently required into all aspects of public expenditure. Certainly taxation must come down through wiser spending so that the old-fashioned but still invaluable virtues of economy, thrift and enterprise might be restored to their proper place. It was disturbing that there was so much complacency about a fiscal policy which was undermining the best elements in British character. (Applause).

The toast of "Our Guests," was proposed by Mr. C. J. B. Andrews (President of the District Society), and acknowledged by Mr. Malcolm McGougan (Recorder of Poole) and Mr. H. Crawford, B.COM. (Head of the Department of Commerce, Bournemouth Municipal College). Mr. McGougan said there seemed to be a strong affinity between the accountancy profession and his own; and he would like to think that the very high regard in which barristers held accountants was reciprocated. There was a steady flow of members of their profession into his. He noted with interest and with some sense of envy that within a remarkably short time the former accountants took silk and became extremely expensive. (Laughter).

THE QUALITIES OF INCORPORATED ACCOUNTANTS

The dinner of the Incorporated Accountants' South Wales and Monmouthshire District Society was held at the Park Hotel, Cardiff, on March 25. The chair was occupied by Mr. F. M. Forster, President of the South Wales Society, and the guests included the Lord Mayor and Lady Mayoress of Cardiff (Sir James and Lady Collins); the Lord Lieutenant of Glamorgan (Major C. G. Traherne, T.D., J.P.); Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants) and Mrs. Barrowcliff; the Mayor of Newport (Councillor W. Pennell) and the Mayoress of Newport; Mrs. F. M. Forster; Mr. R. Wilson Bartlett (past-President, Society of Incorporated Accountants) and Mrs. R. Wilson Bartlett; Mr. C. Evan-Jones (Deputy Secretary, Society of Incorporated Accountants) and Mrs. Evan-Jones; Mr. A. M. C. Jenour (President of the Cardiff Chamber of Commerce); Mr. Derek du Pré (Editor, *The Accountant*); and representatives of other professional bodies, commerce and industry.

The President of the District Society (Mr. F. M. Forster) proposed the toast of The Queen.

The Lord Lieutenant of Glamorgan (Major C. G. Traherne, T.D., J.P.) proposed the toast of the Society of Incorporated Accountants and Auditors. He said that nowadays it was almost impossible to engage in any sort of activity whatever without having at one's elbow, to guide one and to advise one, an accountant. He found his in his own small sphere, both as a property owner and as a farmer, and he found the same, too, when he was practising at the Bar. It was an excellent thing to know that the accountants in Britain were

associated in professional bodies which were recognised by the State and were a protection to the general public.

The Lord Lieutenant said he was delighted to meet the President, Mr. Barrowcliff, who had been representing the Society in America, Canada and elsewhere.

Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants) responded to the toast, saying they were honoured by the presence of the Lord Lieutenant at the dinner. Accountancy was one of the youngest professions. A great responsibility rested on the earlier pioneers of accountancy to create standards of qualification and conduct comparable with the older professions of the law and medicine. The tributes he had heard during the last three years showed beyond doubt how well that responsibility had been discharged. This placed on the present generation of accountants responsibilities no less onerous, to maintain the status of their profession at the highest possible level.

The Society was very mindful of increasing the technical qualifications of its members to keep pace with the ever widening field of service required from them, but technical qualification was not enough. Integrity was an all-important and vital requirement from those who practised accountancy. On their good faith, on their independence, on their reliability, stood much of the smooth working of the country's economy. The work they did and the accounts for which they accepted responsibility must be absolutely above suspicion. Integrity was their watchword, and the public and the Government could be assured that they exercised their profession in the proper public spirit, with the highest technical skill and unchallengeable integrity.

The Society had played its full part in achieving this high standard, and two of its great leaders had come from South Wales and Monmouthshire. He was referring to Mr. R. Wilson Bartlett and Sir Frederick Alban, both past-Presidents, who had rendered very distinguished service and by their wise counsel had lifted the status of the Society. From both of them he had received the most extreme kindness and help.

It was also very fitting that one of Mr. Bartlett's partners—Mr. Forster—should be President of the District Society.

He was also delighted to see there Sir Percy Thomas, who was responsible for the masterpiece of reconstruction at Incorporated Accountants' Hall.

Mr. Barrowcliff said the British economy was in grave danger because penal taxation made it impossible for firms to plough back profits, while there was no other source from which they could obtain risk capital.

Inquiry into Government expenditure was urgently necessary. Some of the best elements of the British character were being undermined. The old-fashioned virtues of thrift and enterprise should be restored to their proper place.

Mr. W. W. Stanley (Vice-President of the District Society) proposed the toast of "Prosperity to South Wales and Monmouthshire." Without minimising the importance of the new industries in South Wales, he said, the basic industries of coal, steel and shipping still formed the backbone of local economic existence. Accountancy was making a proper contribution to the efficiency of industry.

The Lord Mayor of Cardiff (Sir James Collins), responding, said one of their first jobs in South Wales was to put right the injustice that rail rates were higher in South Wales than in other parts of Britain. It was necessary to fight for new roads, for the Severn bridge, for more trade at the docks, and for the development of natural resources.

Mr. F. M. Forster (President of the District Society) proposed the toast of the guests, and Mr. A. M. C. Jenour (President of the Cardiff Chamber of Commerce) responded.

COUNCIL MEETING

MARCH 18, 1954

Present: Mr. C. Percy Barrowcliff (President), Mr. Bertram Nelson (Vice-President), Sir Frederick Alban, Mr. A. Stuart Allen, Mr. F. V. Arnold, Mr. Edward Baldry, Mr. C. V. Best, Mr. H. J. Bicker, Professor F. Sewell Bray, Mr. Henry Brown, Mr. W. F. Edwards, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. A. Hannah, Mr. C. A. G. Hewson, Mr. J. A. Jackson, Mr. Hugh O. Johnson, Mr. W. H. Marsden, Mr. Festus Moffat, Mr. T. H. Nicholson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill.

NEW MEMBERS OF THE COUNCIL

The President welcomed Mr. W. F. Edwards and Mr. J. A. Jackson upon taking their seats on the Council for the first time.

REPORTS OF COMMITTEES

MINUTES were received of recent meetings of the Finance and General Purposes, Hall, District Societies, Parliamentary, Library and Applications Committees, and of the Committees of the South African Branches.

ANNUAL REPORT AND ACCOUNTS

The draft annual report and accounts of the Society for 1953 were approved.

MANAGEMENT RESEARCH

It was reported that the Stamp-Martin Professor of Accounting had agreed to co-operate with the British Institute of Management in sponsoring surveys on the following subjects:

(1) Conservation of financial resources in the small business;

(2) Disclosure of financial information to employees;

(3) Management accountancy and control in the small business.

TRUSTEES TO THE SOCIETY

It was decided that it was no longer necessary to continue the appointment of trustees under Article 78.

The Council expressed appreciation of the services rendered in that capacity by Mr. E. Cassleton Elliott, the sole surviving trustee, whose appointment was terminated.

INCORPORATED ACCOUNTANTS' HALL

The gift by the President of a coloured photograph of Incorporated Accountants' Hall, taken during the Coronation celebrations, was accepted with gratitude.

A report was received on the accommodation to be provided in the projected extension to the Hall.

DISTRICT SOCIETIES

The Council noted with pleasure the formation of a Students' Section of the North Staffordshire District Society.

MEMBERSHIP

Applications were approved, subject to payment of entrance fees and subscriptions as appropriate, for election to membership of the Society, for advancement to Fellowship, and for registration as members in retirement.

MEETINGS, MAY 1954

The Council approved the agenda for the annual general meeting and the extraordinary general meeting to be held on May 26, 1954.

RESIGNATIONS

It was reported that the resignations of the following members had been accepted: ANDERSSON, Vivian Llewellyn (Fellow), Johannesburg; BAKER, Bernard Stuart (Associate), New Malden, Surrey; CRUICKSHANK, Douglas Scott (Associate), Nairobi, Kenya; HERYET, Frank Ernest (Associate), San Diego, California; HOARE, Arthur Caine (Associate), Bedford; JACKSON, Kenneth (Associate), Harrow, Middx; PHILLIPS, Harry Nelson (Fellow), Folkestone, Kent; WHITE, Frederick George (Associate), London.

DEATHS

The Council received with regret a report of the death of each of the following

embers: CROSS, Daisy (Associate), Timperley, Cheshire; HOLMES, Ralph (Associate), Leeds; HUBBARD, Fred Lionel (Associate), Bexhill-on-Sea, Sussex; MONson, James Harold (Associate), London; PORTER, Charles Frederick (Fellow), London; ROGERS, George James Arthur (Associate), Basle, Switzerland; STEVENSON, Arnold Turner (Associate), Dudley, Worcs.; STOBBS, Alexander William, M.M. (Associate), Coxhoe, Co. Durham; THEOBALD, Harry Leonard (Associate), Reading, Berks.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

REPORT

N EXAMINATIONS AND MEMBERSHIP Committee and a Finance and General Purposes Committee were formed by the Council in October 1953

A Council luncheon was held in Glasgow in October 1953 The principal guests were the Rt. Hon. Thomas Johnston, C.H., and the President of the Society, Mr. C. Percy Barrowcliff, F.S.A.A.

The membership at December 31, 1953, comprised 39 Fellows and 116 Associates. There were 234 students.

The Council regrets to report the death of Mr. Robert Milne, F.S.A.A., who was for a number of years a member of the Scottish Council.

Mr. William H. Green, A.S.A.A., is congratulated upon the award of M.B.E. in the Coronation Honours List.

The examinations in 1953 were attended by 99 Scottish candidates, of whom 29 passed. Mr. Robert B. Field attained Honours in the Final Examination, and the Scottish Council recommends the award to him of a prize from the W. Davidson Hall Fund.

The Council negotiated the formation of classes at the Glasgow and West of Scotland Commercial College exclusively for students of the Society under the Day Release Scheme. Inquiries have been instituted for facilities elsewhere.

Mr. George A. MacDonald, A.S.A.A., was appointed one of the two representatives on the Council of the Glasgow Chamber of Commerce, in succession to Mr. John A. Hough, F.S.A.A., who resigned.

LONDON STUDENTS' SOCIETY

CRICKET FIXTURES

PROVISIONAL ARRANGEMENTS HAVE SO FAR been made for two mid-week matches. Members who wish to join the cricket side and who have not previously forwarded their names are asked to advise the Secretary of the London Students' Society as soon as possible.

BOMBAY

THE FOLLOWING OFFICERS AND COMMITTEE have been elected: President, Mr. R. P. Delal; Vice-President, Mr. A. K. S. Aiyer; Committee, Mr. P. C. Hansotia, Mr. E. J. Dastur, Mr. R. C. Divan, Mr. H. J. Parelwalla, Mr. H. P. Delal, Dr. R. C. Cooper, Mr. H. B. Dhondy; Hon. Secretary and Treasurer, Mr. L. C. Hansotia.

HULL

THE INCORPORATED ACCOUNTANTS' HULL and District Society held a successful students' course during the week-end April 2 to 4 at Thwaite Hall, Cottingham, by kind permission of the University College of Hull. More than sixty students and members attended.

Lectures were delivered by Mr. E. D. Cornwell on Bills of Exchange ; Dr. C. R. Curtis on "The last Bank Return and Financial Column of *The Times*" and "Economics"; Mr. W. H. Hall on "The Finer Points of a Schedule D Computation"; Mr. G. M. Mowforth on "Accountancy and Auditing with particular reference to Schedule 8, Companies Act, 1948," and "Accounting and other Problems on Company Formation"; Mr. H. H. Norcross on "The Relationship of Cost and Financial Accounts"; Mr. J. Palmer on "Capital Allowances" and "Recent Tax Law Cases and Practice Changes"; Dr. G. G. Thomas on "Commercial Law," "Insolvency with Particular Reference to the Rights of Creditors," and "Partnership Law and Accounts"; Mr. H. A. R. J. Wilson on "The Art of Answering Examination Questions."

Guests during the week-end were Mr. H. I. Loten (Chairman of the Council, University College, Hull), Mr. C. Meggitt (Registrar, University College), Mr. D. Campbell (Assistant Registrar, Property and Works, University College), and Mr. J. Temperley (H.M. Inspector of Taxes).

A forum was held on Saturday evening. Mr. Bertram Nelson, vice-President of the Society of Incorporated Accountants, dealt with the work of the Society's head office, including the work of the appointments bureau and evidence and representations submitted by the Society to Government Departments and committees. He expressed his view that mobility in the profession was a good thing: accountants going into industry gained valuable experience, and many of them later came back to professional offices.

Mr. W. F. Taylor, head of the Law Department of Hull University College, gave an address on the universities scheme.

Colonel A. V. Rhodes, (immediate past President, Hull Incorporated Law Society) spoke on the relationship between the professions of law and accountancy.

Mr. James S. Heaton, who was formerly one of the Society's examiners, explained how carefully the examination questions were set and marked.

Mr. R. L. Davy, President of the District Society, said the course had achieved its purpose, which was the enhancement of professional knowledge and relationships and the exchange of ideas. Mr. Henry Scott acted as course secretary.

RESULTS OF MAY EXAMINATIONS

THE RESULTS OF THE EXAMINATIONS HELD IN May, 1954, will be *posted* to candidates on Wednesday, July 21.

EVENTS OF THE MONTH

May 4.—*London:* "The Elements of Accounting—III," by Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting. Public lecture for students. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

May 5.—*Hull:* "The Budget," by Mr. W. H. Hall, A.S.A.A., A.C.A. Regal Rooms, Ferensway, at 12.45 p.m.

May 7.—*Glasgow:* Students' study circle meeting. Christian Institute, 70 Bothwell Street, at 5.45 p.m.

May 11-14.—*Society of Incorporated Accountants:* Examinations.

May 12.—*London:* Meeting of the Taxation Group. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

May 13.—*London:* Seminar on "Research in Accounting History: a Pioneer Field," addressed by Professor Mary E. Murphy, PH.D., C.P.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

May 18.—*London:* "The Elements of Accounting—IV," by Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting. Public lecture for students. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

May 23.—*London:* Dance for students of the London and District Society. Bush House, Aldwych, at 7.30 p.m.

May 26.—*London:* Society of Incorporated Accountants annual general meeting at 2.30 p.m., and extraordinary meeting, followed at approximately 3.30 p.m. by the Incorporated Accountants' Benevolent Fund annual meeting. Incorporated Accountants' Hall, W.C.2.

London: Meeting of the Management Group. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

Coventry: Tour of Standard Motor Company, Ltd., Canley Factory.

May 31.—*Birmingham:* Dance for students. St. John's Restaurant, Deritend.

Coventry: Annual general meeting. Craven Arms, High Street, at 6.30 p.m.

PERSONAL NOTES

Messrs. C. Percy Barrowcliff & Co., of Middlesbrough, Leeds and Newcastle upon Tyne; Messrs. Russell, Durie Kerr,

Watson & Co., of Birmingham and London; and Messrs. Baker & Co., of Leicester, Northampton and London, announce that they have amalgamated their London practices and that a joint firm, to be known as Barrowcliff, Russell, Baker & Co., Incorporated Accountants, will practise from the existing offices of Messrs. Baker & Co., 14 Harley Street, London, W.1, until new City offices are available. The partners of the joint firm will be Mr. C. Percy Barrowcliff, F.S.A.A., Mr. T. E. Dent, F.S.A.A., Mr. A. H. McRobert, F.C.A., F.S.A.A., Mr. A. W. McBride, F.S.A.A., Mr. A. J. Cooke, F.S.A.A., Mr. G. H. Brown, A.S.A.A., Mr W. G. A. Russell, F.S.A.A., Mr. Clifford Geipel, F.S.A.A., Mr. R. A. Folland, F.C.A., F.S.A.A., Mr. D. W. Stirling, F.C.A., F.S.A.A., Mr. C. Wheatley, F.S.A.A., Mr. R. M. Backhouse, A.C.A, A.S.A.A., Mr. H. Feldon Baker, F.C.A., A.S.A.A., Mr. D. Sirkin, F.S.A.A., Mr. J. W. Walkden, A.C.A., A.S.A.A., Mr. J. B. Corrin, A.C.A., A.S.A.A., Mr. C. R. Riddington, F.S.A.A., and Mr. T. G. Rimington, A.S.A.A. The resident London partners will be Mr. A. J. Cooke, F.S.A.A., and Mr. R. M. Backhouse, A.C.A., A.S.A.A. The provincial offices of Messrs. C. Percy Barrowcliff & Co., Messrs. Russell, Durie Kerr, Watson & Co., and Messrs. Baker & Co. will continue to be situated at Middlesbrough, Leeds, Newcastle upon Tyne, Birmingham, Leicester and Northampton.

Mr. David N. Curitz, F.S.A.A., has entered into partnership in his practice at Cardiff with Mr. Neville Littlestone, A.S.A.A. The practice is being continued under the style of D. N. Curitz, Littlestone & Co., Incorporated Accountants.

Mr. James Barlow, A.C.A., Bolton, hitherto practising under the style of S. H. Horrocks & Son, has taken into partnership his son, Mr. D. L. Barlow, who was successful at the Final Examination of the Institute of Chartered Accountants last November. The practice will be continued under the firm name of James Barlow & Son.

Messrs. H. G. Ellis, Kennewell & Co., Nottingham, have taken into partnership Mr. E. Holehouse, A.C.A., Mr. F. H. Godber, A.S.A.A., and Mr. J. D. Britton, A.C.A., who have been with the firm for many years. The name of the firm remains unchanged.

Messrs. Wm. H. Jack & Co., Incorporated Accountants, London, W.C.2, announce that Mr. Leonard Woolf, A.S.A.A., who has been associated with the firm for a number of years, has been admitted into partnership.

Messrs. Charles E. Dolby & Son, Liverpool, announce that they have admitted into partnership Mr. Geoffrey English, A.S.A.A. and Mr. Alfred Geoffrey Hirst, A.C.A., who have previously been associated with them. The style of the firm will remain unchanged.

Messrs. Harper, Kent & Wheeler, Incorporated Accountants, Shrewsbury, have admitted into partnership Mr. Brian S. Kent, A.S.A.A., the son of the late Mr. Stanley Kent, who was a partner in the firm for a number of years.

Mr. J. J. Williamson, A.S.A.A., has been appointed accountant to British Industrial Holdings, Ltd., London, E.14.

Mr. V. W. Tennant, A.S.A.A., is now accountant to Columbia Ribbon and Carbon Manufacturing Co., Ltd., London, S.E.26.

Mr. W. Glynn Jones, Incorporated Accountant, has commenced public practice at 24 West Street, Prescot, Lancashire.

Mr. Kenneth Richardson, Incorporated and Certified Accountant, has commenced practice at 8 Windsor Close, Cottingham, E. Yorks.

Mr. Gordon McLachlan, B.COM., A.S.A.A., is now accountant to the Nuffield Foundation, Nuffield Provincial Hospitals Trust, and Nuffield Corporation for the Care of Old People.

Mr. John Snaith, A.S.A.A., has been appointed secretary of John Rawson and Sons, Ltd., Leicester.

Mr. R. Skermer, A.S.A.A., has been appointed secretary and accountant to Bates Bros. (Sheet Metal Workers), Ltd. and Bates Bros. (Engineers), Ltd., Manchester.

Mr. A. W. Dyer, A.S.A.A., has taken up the appointment of accountant to Donisthorpe & Co., Ltd., Leicester.

Mr. H. W. Cross, A.S.A.A., has taken the position of secretary and accountant to The Cyprus Cement Co., Ltd., Cyprus.

Messrs. Hatfield, Dixon, Roberts, Wright and Co., London, E.C.4, advise that Mr. P. T. Baly, A.S.A.A., has been admitted as a partner in the firm.

Messrs. James L. and F. S. Oliver, Newcastle upon Tyne, announce that Mr. H. W. Green, F.S.A.A., has retired from the firm, and Mr. G. Duncan Linklater, F.C.A., who was formerly in independent practice, has been admitted into partnership. The firm name is unchanged.

Messrs. Broome, Foxon & Co., Nottingham, announce that Mr. R. C. Gratton, A.S.A.A., a senior member of their staff, has been admitted into partnership.

REMOVALS

Messrs. Proctor & Proctor, Chartered Accountants, have changed their address to 43 Westgate, Burnley.

Mr. Harry Harris, Incorporated Accountant, has removed to 5 Lydford Road, Willesden Green, London, N.W.2.

Messrs. Francis Dix, Bird & Co. have transferred their offices to Standard Bank Chambers, 46 Marshall Street, Johannesburg.

Mr. John Aitchison, Incorporated Accountant, advises a change of address to 93 Somerville Drive, Glasgow, S.2.

Mr. J. E. Chilton, Incorporated Accountant, has removed his office to 4 Museum Place, Cardiff.

Messrs. Watson & Danbury, Incorporated Accountants, announce that their address is now 2 Thames House, Queen Street Place, London, E.C.4.

Messrs. Pexton & Co., Incorporated Accountants (formerly Pexton, Goodley & Co.), have moved to Danes Inn House, 265 Strand, W.C.2.

OBITUARY

John Airey

We record with regret the death on March 22 of Mr. John Airey, F.S.A.A., at the age of 78.

Mr. Airey received his training in the office of Messrs. H. D. McAusland and Co., Liverpool. He became a member of the Society of Incorporated Accountants in January, 1918, and was immediately admitted to partnership in the firm of McAusland and Airey. On subsequent changes in the composition of the firm, its name became Airey & Page and then John Airey and Co. Mr. John Airey retired about ten years ago, and the practice is being continued by his nephew, Mr. W. A. Airey, F.S.A.A.

Mr. John Airey was for many years a Justice of the Peace and a member of Wallasey County Borough Council and of its Finance, Education and Housing Committees. He was an alderman from 19[illegible] until the date of his death. On two occasions he served as President of the Wallasey Labour Party, of which he was a founder.

He was keenly interested in the work of the Incorporated Accountants' District Society of Liverpool, and the District Society was represented at the funeral.

Arthur Crosland

We learn with regret that Mr. Arthur Crosland, A.C.A., A.S.A.A., died on March 1[illegible] at the age of 71. He was awarded the silver medal of the Society for 1908, having attained a first certificate of merit in the Final Examination in June of that year and was admitted to membership. He became a member of the Institute of Chartered Accountants in England and Wales in 1924.

Mr. Crosland was in the offices of Messrs. Armitage & Norton at Huddersfield and Bradford from 1899 till 19[illegible] when he took an appointment with A. and S. Henry and Co., Ltd., Manchester. He was secretary of the company from 19[illegible] till the date of his death.